

## **AUDIT COMMITTEE**

- Date and Time :-** Tuesday, 26 May 2020 at 2.00 p.m.
- Venue:-** Virtual Meeting.
- Membership:-** Councillors Cowles, Vjestica, Walsh (Vice-Chair) and Wyatt (Chair)
- Independent Member**

The business which will be discussed are described on the agenda below and there are reports attached which give more details.

Rotherham Council advocates openness and transparency as part of its democratic processes. Anyone wishing to record (film or audio) the public parts of the meeting should inform the Chair or Governance Advisor of their intentions prior to the meeting.

## **AGENDA**

### **1. Apologies for Absence**

To receive the apologies of any Member who is unable to attend the meeting.

### **2. Minutes of the previous meeting held on 4th February, 2020 (herewith) (Pages 1 - 6)**

To approve the accuracy of the previous minutes held on 4<sup>th</sup> February, 2020.

### **3. Declarations of Interest**

To receive declarations of interest from Members in respect of items listed on the agenda.

### **4. Questions from Members of the Public or the Press**

To receive questions relating to items of business on the agenda from members of the public or press who are present at the meeting.

### **5. Update on External Audit Update (documentation herewith) (Pages 7 - 16)**

To receive an update on:-

- PSAA - Scale Fee Letter.
- Grant Thornton - Audit Scope Letter.
- Grant Thornton - Audit Plan Addendum.

**6. Dedicated School Grant - Central Reserve (herewith) (Pages 17 - 41)**

To note the actions being taken to manage the Dedicated School Grant deficit in Rotherham, the additional funding allocated in the government spending review and the outstanding Department for Education (DfE) consultation on Special Education Needs & Disabilities (SEND) and Alternative Provision (AP) Funding and the DfE's consultation response to 'Clarifying the Specific Grant and Ring-fenced Status of the Dedicated Schools Grant (DSG)'

**7. Closure of the Accounts 2019/20 - Update due to Covid-19 (herewith) (Pages 42 - 47)**

To note the revised timetable for the production of the Council's financial statements.

**8. Internal Audit Self-Assessment against the Public Sector Internal Audit Standards (herewith) (Pages 48 - 53)**

To note the result of the self-assessment against the PSIAS and to confirm that an external peer review should be completed in late 2020.

**9. Internal Audit Quality Assurance and Improvement Programme (QAIP) (herewith) (Pages 54 - 92)**

To note the production and ongoing implementation of the QAIP based on the internal self-assessment reported to the Audit Committee.

**10. Internal Audit Annual Report 2019-20 (herewith) (Pages 93 - 110)**

To note Internal Audit work undertaken during the financial year 2019/20 and the key issues that have arisen from it, the overall opinion of the Head of Internal Audit and the information contained regarding the performance of Internal Audit during 2019/20.

**11. Audit Committee Forward Work Plan (herewith) (Pages 111 - 119)**

To review the Forward Work Plan and suggest any amendments to it.

**12. Exclusion of the Press and Public**

The following items are likely to be considered in the absence of the press and public as being exempt under Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (business affairs).

**13. Internal Audit Progress Report for the period 1st January to 30th April, 2020 (herewith) (Pages 120 - 147)**

To note the Internal Audit work undertaken since the last Audit Committee, 1<sup>st</sup> January to 30<sup>th</sup> April, 2020, the key issues that have arisen from it, the information contained regarding the performance of Internal Audit and the actions being taken by management.

**14. Children and Young People's Services (CYPS) Directorate Risk Register (herewith) (Pages 148 - 157)**

To note the progress and current position in relation to risk management activity in CYPS.

**15. Items for Referral for Scrutiny**

To consider the referral of matters for consideration by the Overview and Scrutiny Management Board.

**16. Urgent Business**

To consider any item which the Chair is of the opinion should be considered as a matter of urgency.

**17. Date and time of next meeting**

The next meeting of the Audit Committee will be held on Tuesday, 23<sup>rd</sup> June, 2020 commencing at 2.00 p.m.



SHARON KEMP,  
Chief Executive.

**AUDIT COMMITTEE**  
**4th February, 2020**

Present:- Councillor Wyatt (in the Chair); Councillors Vjestica, Walsh and Bernard Coleman (Independent Person).

Gareth Mills, Grant Thornton (External Auditor) was also in attendance.

An apology for absence was received from Councillor Cowles.

**57.       DECLARATIONS OF INTEREST**

There were no Declarations of Interest made at the meeting.

**58.       BERNARD COLEMAN, INDEPENDENT PERSON**

The Chair reported that it was Bernard's last meeting of the Audit Committee as the Independent Person.

Bernard was thanked for his attendance and his contributions to the work of the Committee.

It was hoped that the new Independent Person would be appointed as a matter of urgency.

Resolved:- That the Head of Democratic Services ensure that the appointment process for the new Independent Person be undertaken and completed as soon as possible.

**59.       QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS**

There were no members of the public or the press in attendance at the meeting.

**60.       MINUTES OF THE PREVIOUS MEETING HELD ON 26TH NOVEMBER, 2019**

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 26<sup>th</sup> November, 2019.

Resolved:- That the minutes of the previous meeting of the Audit Committee be approved as a correct record of proceedings.

**61.       GRANT THORNTON EXTERNAL AUDIT PLAN 2019/20**

Consideration was given to a report, presented by Gareth Mills describing Grant Thornton's External Audit Plan in respect of the 2019/20 financial year.

**AUDIT COMMITTEE - 04/02/20**

The report stated that, as the Council's external auditor, Grant Thornton had a duty to:

- give an opinion on the Council's financial statements;
- conclude on whether the Council had arrangements in place to secure economy, efficiency and effectiveness in the Council's use of its resources.

The External Audit Plan document, included as an appendix to the submitted report, set out the audit approach that Grant Thornton were planning to take to discharge these duties.

The International Standards on Auditing provided guidance on the significant risk which should be considered by auditors. Grant Thornton had identified the following significant risks:-

Management override of controls  
Valuation of pension liabilities  
Valuation of land and buildings  
Implementation of a new payroll system

The risk assessment regarding the Authority's arrangements to secure value for money had identified the following significant risks:-

Financial standing – delivery of 2019/20 budget, savings plan and other budgetary measures whilst managing cost and demand pressures within Children's Services, Adult Social Care and other vital services for the local population  
Dedicated School Grant deficit position and recovery plan

A brief description of each risk was provided in the Plan.

The Financial Reporting Council (FRC) had set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. The FRC had now assumed responsibility for the inspection of local government audit and the regulator required that all audits achieved a 2A (few improvements needed) rating. Accordingly, the planned audit fee was increased to reflect the additional work required during the financial year.

Discussion ensued with the following issues raised/clarified:-

- The accompanying pressure of bringing forward the closure of accounts
- Staffing implications for the external auditor
- Constant monitoring of progress

Resolved:- (1) That the report be received and its contents noted.

(2) That Grant Thornton's External Audit Plan for the 2019/20 financial year, as now submitted, be approved and the proposed areas of audit identified be noted.

## **62. CLOSURE OF THE ACCOUNTS 2019/20**

Rob Mahon, Finance Manager (Financial Accounting), presented a report outlining the main changes to the local authority accounting framework in 2019/20 which included their effect on the Council's accounting policies and to the statutory framework for preparing and reporting local authority financial statements (the Accounts and Audit Regulations 2015).

The decision to bring forward the timetable for publishing the unaudited financial statements by one month and for the publishing of the audit financial statements by 2 months had represented a major challenge for all local authorities. It had resulted in a need to adopt radically different approaches to ensure that the tighter deadlines were achieved.

Rotherham had successfully met the 2018/19 timeframes in closing its accounts. It had continued to review internal procedures from lessons learnt in order to streamline processes and improve the quality of the closedown processes and procedures.

In accordance with the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015, notice of the inspection period would be advertised on the Council's website in advance of the unaudited financial statements being published. In order for the inspection period to commence, the Annual Governance Statement and narrative Report would also need to be published alongside the Council's unaudited financial statements on the Council's website. The timetable for preparing the Annual Governance Statement and Narrative Report was, therefore, being co-ordinated with the publication of the draft unaudited Statement of Accounts to meet this requirement.

This financial year, the Council must disclose the expected balance sheet impact of the new IFRS 16 leases that would see the removal of operation leases from April 2020 with lessees expected to recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. Further details of the Council's work to prepare for IFRS 16 were detailed in Appendix A.

Resolved:- That the key accounting issues and main changes to the accounts in 2019/20, as set out in Appendix A of the report submitted, be noted.

**AUDIT COMMITTEE - 04/02/20**

**63. AUDIT COMMITTEE FORWARD WORK PLAN**

Consideration was given to the proposed forward work plan for the Audit Committee covering the period March, 2020 to January, 2021.

Resolved:- That the Audit Committee forward plan, now submitted, be supported and any amendments arising actioned in due course.

**64. ITEMS FOR REFERRAL FOR SCRUTINY**

There were no items for referral.

**65. EXCLUSION OF THE PRESS AND PUBLIC**

Resolved:- That, under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12(1) of such Act indicated, as now amended by the Local Government (Access to Information) (Variation) Order 2006 (information relating to business and financial affairs).

**66. FINANCE AND CUSTOMER SERVICES DIRECTORATE RISK REGISTER**

Consideration was given to a report, presented by Judith Badger, Strategic Director, Finance and Customer Services, providing details of the Risk Register and risk management activity within the Finance and Customer Services' Directorate.

The Committee sought reassurance on the Risk Register and risk management activity in particular highlighting:-

- How the Register was maintained/monitored and at what frequency
- Involvement of the Cabinet Member
- How risks were included on and removed from the Register
- Anti-fraud activity in the Directorate

A detailed breakdown was given of the 5 red rated risks included within the Register.

Resolved:- That the progress and current position in relation to risk management activity in the Finance and Customer Services Directorate, as detailed in the report now submitted, be noted.

**67. CORPORATE STRATEGIC RISK REGISTER**

Simon Dennis, Corporate Risk Manager, presented the current Strategic Risk Register which took account of updates from Directorates, the Strategic Leadership Team and the Audit Committee.

The Register was reviewed and refreshed by the work of the Risk Champions Group and by the Strategic Leadership Team (SLT). Each individual risk score was reviewed by Directorate Leadership Teams and Strategic Directors at their regular meetings and had been changed where a change was justified.

The current Register had been constructed from updates provided by risk owners. There were currently 12 risks included on the Strategic Risk Register, one less than when the Register was previously considered in July 2019. A risk relating to the UK leaving the EU without a deal had been added after July 2019 and then subsequently removed.

Discussion ensued with the following issues raised/highlighted:-

- Influenza Pandemic/Emergency Planning
- Issues relating to the recent flooding incident

Resolved:- That the updated Strategic Risk Register be noted.

**68. INTERNAL AUDIT PROGRESS REPORT - 1ST NOVEMBER - 31ST DECEMBER, 2019**

Consideration was given to a report presented by David Webster, Head of Internal Audit, which provided a summary of Internal Audit work completed during 1<sup>st</sup> November to 31<sup>st</sup> December, 2019, and the key issues that had arisen therefrom.

The completion of the audit plan had been impacted by a member of the Audit Team being on sick leave during the period under consideration and in fact was still off work sick. This would mean adjustments to the plan towards the end of the year.

The current position with regards to the plan was given in Appendix A with 11 reviews having been deleted from the current year's plan and additional days being allocated to 2 reviews.

A brief summary of all audit work concluded since the last Audit Committee were set out in Appendix B. 3 audits had been finalised one of which had Partial Assurance.

A summary of the Control and Risk Self-Assessments issued to all maintained schools was set out in Appendix C. 18 replies from schools had been received.

Appendix D set out Internal Audit's performance against a number of indicators. Target performance had not been achieved for the indicator on productive time. This was affected by sickness during the 2 month period.



**AUDIT COMMITTEE - 04/02/20**

Appendix E showed the number of outstanding recommendations that had passed their original due date, age rated. The detail was then given, where they had been deferred the comment received from the Manager was given and where there was no change to the due date or comment, the Manager had not updated the system.

Discussion ensued with the following issues clarified:-

- The client satisfaction survey had been refreshed with consideration now being given to an online form for ease of completion and reporting
- Reduction in the agreed action due dates
- Change in working practice with reminders being sent to officers and Assistant Directors on a countdown from 4 weeks with the hope of increasing the due date actions
- Preparation of next year's plan was underway with attendance at every Directorate Leadership Team seeking their views on what should be included

Resolved:- (1) That the Internal Audit work undertaken since meetings of the Audit Committee, 1<sup>st</sup> November to 31<sup>st</sup> December, 2019, and the key issues arising therefrom be noted.

(2) That the information submitted regarding the performance of Internal Audit and the actions being taken by management in respect of the outstanding actions be noted.

**69. DATE AND TIME OF NEXT MEETING**

Resolved:- That a further meeting be held on Tuesday, 24<sup>th</sup> March, 2020, commencing at 2.00 p.m.

30 April 2020

By email

**Email** [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Dear Section 151 Officer and Audit Committee Chair

## **Fee Scale for the Audit 2020/21 and update on 2019/20**

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

## How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	<b>Scale fee for the audit 2020/21</b>	<b>Scale fee for the audit 2019/20</b>
Rotherham Metropolitan Borough Council	£108,438	£108,438

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

## Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

### **Quality of Audit Services**

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

### **Impact of COVID-19 on current 2019/20 audits**

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

### **Local Audit Quality Forum**

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

**Chief Executive**



# Grant Thornton

An instinct for growth™

Judith Badger  
 Strategic Director of Finance and Customer Services  
 Rotherham Metropolitan Borough Council  
 Riverside House  
 Main Street  
 Rotherham  
 S60 1AE

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**Grant Thornton UK LLP**  
 No 1 Whitehall Riverside  
 Whitehall Road  
 Leeds LS1 4BN

21 April 2020

Dear Judith

### **Audit scope and additional work 2019-20**

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times. In this letter, I want to update you on our plans to work with you over the coming months, and to ensure that we plan our audit effectively, to provide assurance for those charged with governance, and to deliver a high quality audit to all users of the audit, whilst also seeking to maintain our fee within the envelope which we discussed previously.

I wrote to you previously regarding our detailed audit proposals on 24 January 2020, to outline how the increased regulatory focus facing all audit suppliers was impacting on our planned audit programme. I set out in my letter my expectation of what this would mean for our audit coverage for 2019-20, as well as for the audit fee. Items I highlighted in particular included the impact of 'raising the bar' to meet the FRC's expectation that all audits would now achieve a level of 2a (acceptable with limited improvements only) or above. I explained that we would need to increase our managerial oversight to achieve this audit standard. In addition, I outlined how you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. I also outlined the specific additional work which we would need to undertake in complex areas of the accounts with high estimation uncertainty, such as Property, Plant and Equipment and Pensions valuations. I also outlined the changes we were making to our materiality level to reflect greater public scrutiny, as well as our planned use of an auditor's expert for PPE valuation. I set out full details in my audit plan dated 24 January, where I advised that my estimate was that an additional fee of £20,850 would be required to complete the audit.

Subsequent to the above, global events have moved in an unexpected and tragic direction. None of us could have foreseen in January the impact that the Covid19 crisis has had on the world. As a local government body, you are at the forefront of efforts to support local people, and clearly the focus of the Authority will be directed to supporting local communities as best you can in these exceptionally difficult circumstances. As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

With this in mind we have prepared an update to our Audit Plan for 2019-20 and I attach this for your consideration. The following are the key points which I particularly wish to highlight for your attention.

### **Addition of a significant audit risk in respect of Covid 19:**

The crisis has increased audit risk factors in the following areas:

- Remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management's estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and their overall financial resilience and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We have set out in the Audit Plan update the additional work we propose to undertake in respect of this new significant risk. Fundamental to our response will be working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid 19 in its accounts preparation. We will also review the appropriateness of your disclosures, including in respect of any estimation uncertainties around for example PPE and Pensions asset valuations.

### **Value for Money and Financial Standing**

As part of our VFM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current crisis. We do not envisage this will be a significant audit risk for 2019-20, although we will keep this under review for 2020-21. We will also review your assessment of going concern and financial stability in the light of increased uncertainties around for example Council Tax and NNDR collection rates, car park income, and investment properties. We envisage linking the additional VFM work around financial standing with our Going Concern opinion work.

### **Regulatory changes.**

As you will be aware, earlier this month, CIPFA decided to adopt a small number of presentational changes to its Accounting Code of Practice for 2019-20. The changes which are now proposed to the Code, for example around disclosure, will have only a marginal impact on the audit. The additional audit risk factors that I highlighted in my January 2020 letter regarding raising the bar, PPE and Pensions work, for example, will therefore all still be required this year. You will also be aware that the Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required by both you and us, for this year at least.

Finally, MHCLG has revised the publication date for the draft accounts to 31 August and set a target date for publication of audited accounts of 30 November. Whilst flexibility in moving away from July is welcome, a number of authorities have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021-22. We are keen to agree a timetable that works for you, and that we can both commit too. We can discuss a proposed audit timetable at our liaison meeting on 22 April.

### **Fee impact**

As I set out in my previous letter, final audit fees are determined by PSAA, after the audit has been completed. At this stage, it is difficult to quantify the impact of the additional work required in respect of Covid19. My best estimate is that, taking into account increased work in respect of Covid 19, and reduced work on IFRS 16, the fee set out in our Audit Plan of 24 January 2020, totalling £129,288, remains appropriate, and we will do our best to work within this envelope. Should circumstances change, we will let you know.

I hope this is helpful and allows you to plan accordingly for the 2019-20 audit. Should you wish to discuss this further, please do not hesitate to contact me. I attach a copy of our Audit Plan update for your comment. We look forward to working with you again this year.

Yours sincerely

***Gareth***

**Gareth Mills**

**Engagement Lead and Key Audit Partner**

For and on behalf of Grant Thornton UK LLP



# External Audit Plan update

*Year ending 31 March 2020*

**Rotherham Metropolitan Borough Council**  
**21 April 2020**



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# 1. Introduction & headlines

## Purpose

This document provides an update to the planned scope and timing of the statutory audit of Rotherham Metropolitan Borough Council ('the Authority') as reported in our Audit Plan dated 24 January 2020, for those charged with governance.

## The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 24 January 2020, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VFM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to encounter, in order to provide vital public services. As far as we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our external audit procedures.

## Impact on our audit and VFM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority's financial statements and making our conclusion on your VFM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021-22.

## Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

## Changes to our VFM approach

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to Covid-19.

## Conclusion

We will ensure any further changes in our audit and VFM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

## 2. Significant risks identified: Covid-19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Covid – 19</b>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen</li> <li>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation’s ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• Evaluate management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>

Select report type  
Audit Committee

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**Committee Name and Date of Committee Meeting**

Audit Committee – 26 May 2020

**Report Title**

Dedicated School Grant – Central Reserve

**Is this a Key Decision and has it been included on the Forward Plan?**

No

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director of Finance and Customer Services

**Report Author(s)**

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**Ward(s) Affected**

Borough-Wide

**Report Summary**

The report outlines the current and projected overspend on the Dedicated Schools Grant and the recovery plans in place to operate within its annual allocation and reduce the deficit over future years.

The report outlines the national picture on the High Needs Block as part the overall Dedicated Schools Grant and the additional funding the government is investing in education in the next three years as part of its spending review.

The report also brings to members' attention clarification on the accounting treatment of the Dedicated Schools Grant reserve and use of funds to mitigate the deficit following the government's consultation response in January 2020.

**Recommendations**

1. Audit Committee is asked to note the actions being taken to manage the Dedicated School Grant deficit in Rotherham.
2. Audit Committee notes the additional funding allocated in the government spending review and the outstanding Department for Education (DfE) consultation on Special Education Needs & Disabilities (SEND) and Alternative Provision (AP) Funding.
3. Audit Committee notes the DfE's consultation response to 'Clarifying the Specific Grant and Ring-fenced Status of the Dedicated Schools Grant (DSG)'

**List of Appendices Included**

Appendix 1 DfE's consultation response to 'Clarifying the Specific Grant and Ring-fenced Status of the Dedicated Schools Grant (DSG)'

**Background Papers**

OSMB 29 January 2020 - Update on the High Needs Block  
LAC Sufficiency Strategy 2019-2021  
SEND Sufficiency Strategy

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No

**Council Approval Required**

No

**Exempt from the Press and Public**

No

## Dedicated School Grant – Central Reserve

### 1. Background

- 1.1 Rotherham has been a relatively low funded authority and has seen significant pressures on the High Needs Block for many years. The High Needs Budget allocation has increased year on year but, partly due to Rotherham's low funding baseline compared to neighbouring boroughs and nationally, the budget uplifts have not been sufficient to match the acceleration in demand and increase in the cost of provision.
- 1.2 During recent years Rotherham has faced growing pressure on the High Needs Budget (HNB) which has resulted in year on year deficits. In 2015/16 the High Needs in-year deficit was £1.004m, but in the last three financial years the annual HNB deficit has been £5m, leading to a total HNB deficit of £15.8m and an overall DSG deficit of £15.1m after taking account of DSG balances for Early Years.
- 1.3 The projected over spend is as a result of a number of factors; an overall increase in Education Health and Care Plans, an increase in the number of young people aged 16 to 25 with an EHCP who are now the responsibility of the LA to fund, an increase in the number of children accessing higher cost provision and an increase in the number of pupils in Alternative Provisions (Pupil Referral Units).
- 1.4 The deficit reflects system wide issues in how the funding is determined. Whilst the allocation moved to a formulaic basis in 2018/19 and now includes proxy indicators of SEND within the population, a large element of the grant remains fixed based on historic spend.
- 1.5 To assist in mitigating the DSG pressures in the High Needs Block local authorities can transfer monies (0.5%) from the Schools Block (£190m in 2019/20) to the High Needs Block if they have consulted and gained agreement from Schools and Schools Forum. If a local authority wishes to transfer more than 0.5% then they need to submit a disapplication request to the Secretary of State with a robust business case.
- 1.6 In 2019/20 Rotherham were successful in submitting a disapplication request to the Secretary of State to transfer 1.5% of the DSG Schools Block allocation (£2.8m) to the High Needs Block. The transfer is for one year only and to continue with the transfer of funding a new application is required each financial year.
- 1.7 Despite the £2.8m transfer of funding into the High Needs Block there is still a projected overspend of £4.6m (financial pressure would be £7.4m without the transfer) in the 2019/20 financial year, with the DSG deficit estimated to increase to £19.7m.
- 1.8 Due to the size of the DSG Deficit and in line with the DSG Operational Guidance, Rotherham submitted a Recovery Plan to the ESFA in June 2019 and continues to meet with the ESFA to monitor progress in its implementation.

## **2. Key Issues**

- 2.1 To operate within the Dedicated Schools Grant (DSG) allocations and reduce / mitigate the current DSG Central Reserve deficit.
- 2.2 Ensure that the DSG Central Reserve complies with the accounting requirements.

## **3. Actions to address the Key Issues**

- 3.1 Rotherham has produced a deficit recovery plan to identify cost savings and reduce the cost pressures on the High Needs Block within the Dedicated Schools Grant. The four main cost pressures (which are also national pressures) are:
  - High cost external residential placements and independent sector placements;
  - General growth in the number of Education Health Care (EHC) with a particular pressure identified for supporting young people post 16;
  - Growth in alternative provision placements linked to Pupil Referral Units as an outcome of permanent exclusions;
  - The growth in the number of pupils who require specialist provision when their assessed needs cannot be met by mainstream schools and academies.
- 3.2 The SEND Sufficiency Strategy was approved by Cabinet in May 2019. It sets out the needs analysis, rationale and process to allocate capital funding to increase the sufficiency of school and setting places for children with Special Education Needs and Disabilities (SEND) in Rotherham. £1.186 million of available capital funding has been allocated to create 111 additional school places in Rotherham starting from 2020, for children with special education needs and disabilities. Whilst it may not be possible or appropriate to move children who are settled in expensive independent sector provision, the additional local sufficiency should prevent growth and re-balance the provision mix over time.
- 3.3 An independent consultancy, ISOS, have been engaged to develop a clear understanding and strategy for Rotherham's Alternative Provision offer and to ensure that it is fit for purpose, meets need, is of high quality and is cost effective.
- 3.4 The LAC Sufficiency Strategy, and specifically plans to provide care for Looked After Children within the borough, will also have a positive impact on the High Needs Budget. The local authority will be in a position to directly oversee each child's Education, Health and Care Plan, and identify local provision that is in a position to meet their needs.
- 3.5 On 3 May 2019 the Department for Education consulted on Special Education Needs & Disabilities (SEND) and Alternative Provision (AP) Funding. This call for evidence is intended to focus on how the current available funding is distributed, and what improvements might be made in future. It seeks

information about whether there are aspects of the funding system that are driving up costs without improving outcomes for the young people concerned. The consultation ended on 31 July 2019 but the Council is still awaiting the government response.

- 3.6 The recent Government spending review announced additional funding for schools and high needs, compared to 2019-20, will rise by £2.6 billion for 2020-21, £4.8 billion for 2021-22 and £7.1 billion for 2022-23.
- 3.7 In 2020/21 the £2.6 billion is split £1.9 billion to the Schools Block and £0.7 billion to the High Needs Block; the funding split for future years still to be determined. For Rotherham this is an additional £6.2m for schools and £4.8m in the High Needs Block.
- 3.8 On the 11 October 2019 the Department for Education consulted on changing the conditions of grant and regulations applied to the Dedicated Schools Grant (DSG) in order to clarify that the DSG is a ring-fenced specific grant separate from the general funding of local authorities, and that any deficit an authority may have on its DSG account is expected to be carried forward to the next year's schools budget and does not require to be covered by the authority's general reserves, please see appendix 1 for DfE consultation response.
- 3.9 The government consultation response makes it entirely clear on a statutory basis that a DSG deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises the LA not to do this.

#### **4. Timetable and Accountability for Implementing this Decision**

- 4.1 The High Needs Block Recovery Plan submitted to the Department for Education in June 2019 is a three year plan that demonstrates Rotherham's ability to effectively manage the DSG deficit.
- 4.2 The plan identifies how the current projects are estimated to reduce cost pressures in the High Needs Block and operate within the annual allocation in future years.
- 4.3 The additional funding to the High Needs Block has now enabled Rotherham to operate within its DSG annual allocation at an earlier stage than in the original recovery plan, (from 2020/21 financial year) and therefore minimise further growth in the DSG deficit.

#### **5. Financial and Procurement Advice and Implications (to be written by the relevant Head of Finance and the Head of Procurement on behalf of s151 Officer)**

- 5.1 The Dedicated Schools Block Central Reserves deficit at the end of the 2019/20 financial year is estimated to be £19.7m.
- 5.2 Due to the additional funding announced in the Government's spending, it is estimated that Rotherham will operate within its annual allocation in the 2020/21



financial year and for DSG to make a contribution towards reducing the DSG deficit from 2021/22 onwards.

**6. Legal Advice and Implications (to be written by Legal Officer on behalf of Assistant Director Legal Services)**

6.1 None, other than ensuring compliance with the requirements of the Accounts and Audit Regulations 2015.

6.2 The School and Early Years Finance (England) Regulations 2020 will come into force in February 2020. The Department of Education will amend the DSG conditions of grant for both 2019-20 and 2020-21 to bring them into line with the new end-year arrangements for carrying forward DSG deficits.

**7. Human Resources Advice and Implications**

7.1 There are no Human Resource implications arising from this report.

**8. Implications for Children and Young People and Vulnerable Adults**

8.1 Rotherham is compliant with the SEND Code of Practice which sets out that if a child's parent or a young person makes a request for a particular nursery, school or post-16 institution in maintained, non-maintained, or independent provision, the local authority must comply with that preference and name the school or college in the EHC plan unless it would be unsuitable for the age, ability, aptitude or SEN of the child or young person, or the attendance of the child or young person there would be incompatible with the efficient education of others, or the efficient use of resources.

**9. Equalities and Human Rights Advice and Implications**

9.1 There are no implications arising from this report to Equalities and Human Rights.

**10. Implications for Partners**

10.1 The Council is increasingly working in partnership with other public, voluntary and community sector bodies in delivering services and influencing outcomes.

**11. Risks and Mitigation**

11.1 The report outlines the risks to the High Needs Block of the Dedicated Schools Grant and the actions being implemented to mitigate the financial pressures.

**12. Accountable Officer(s)**

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Department  
for Education

# **Clarifying the Specific Grant and Ring-fenced Status of the Dedicated Schools Grant (DSG)**

## **Government Consultation Response**

**January 2020**

## Contents

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## Introduction

The Department for Education consulted on changing the conditions of grant and regulations applying to the Dedicated Schools Grant (DSG), in order to clarify that the DSG is a ring-fenced specific grant separate from the general funding of local authorities, and that any deficit an authority may have on its DSG account is expected to be carried forward to the next year's schools budget and does not require to be covered by the authority's general reserves.

The public consultation exercise sought views on making such changes relating to the DSG and allowed respondents to express comments, views or concerns.

## Who this was for

The following stakeholders were identified:

- Local Authorities (LAs) in England
- Schools Forums
- Those who audit LAs in England
- Other interested parties

## Consultation period

The consultation took place from 11 October 2019 to 15 November 2019. It was conducted online using the government's consultation software, or alternatively, respondents were able to email or send a response form.

## About the consultation

### Context

Since 2006 the Department for Education has funded local authorities for their current expenditure on schools, early years and children and young people with high needs through a specific grant known as the Dedicated Schools Grant (DSG), made under section 14 of the Education Act 2002. This specific grant must be spent on the local authority's Schools Budget, which is defined in regulations (currently the School and Early Years Finance (England) (No 2) Regulations 2018).

At the end of each financial year, a local authority may have underspent or overspent its DSG allocation. The conditions of grant for the DSG provide that any underspend must be carried forward to the next year's Schools Budget. To date, the conditions of grant have provided three options for dealing with an overspend:

- the local authority may decide not to fund any of the overspend from its general resources in the year in question, and to carry forward all the overspend to the schools budget in future years
- the local authority may decide to fund part of the overspend from its general resources in the year in question, and carry forward part to the schools budget in future years
- the local authority may decide to fund all of the overspend from its general resources in the year in question

Carrying forward an overspend to the schools budget in future years requires the consent of the local schools forum, or if that is not forthcoming the authorisation of the Secretary of State. In practice, schools forums have almost always approved the carrying forward of an overspend.

Until the last few years, few local authorities were recording DSG overspends, and those overspends were small. However, pressures on the high needs budget have led to more and larger overspends in recent years. Local authorities' budget data for 2019-20 recorded that at the end of 2018-19, about half of all authorities experienced an overspend, amounting to over £250m in all, while others were still carrying forward surpluses. The national net position was an overspend of £40m, and authorities were forecasting that there would be a net overspend of £230m at the end of 2019-20.

The Government announced at the end of August 2019 that funding for schools and high needs will rise by £2.6bn for 2020-21, £4.8bn for 2021-22, and £7.1bn for 2022-23, compared to 2019-20. This includes £780m extra for high needs in 2020-21: the division of funding between schools and high needs for 2021-22 and 2022-23 has yet to be determined. This additional funding will help many local authorities to bring their DSG

accounts into balance, but a number of authorities will already have substantial deficits at the end of 2019-20 and will not be able to recover them immediately.

The DSG is a specific grant, and the conditions of grant make clear that it can only be spent on the Schools Budget, and not on other aspects of local government expenditure. But where there is an overspend on the DSG, local authorities may currently decide to fund that from general resources. This has led some local authority Chief Finance Officers (often referred to as section 151 officers, with reference to section 151 of the Local Government Finance Act 1972) to conclude that if their DSG account is in deficit, they need to be able to cover the deficit from the authority's general reserves. We know that a similar view is held by organisations that audit local authority accounts. Given the size of some authorities' DSG deficits, and the other pressures on authorities' reserves, there is a risk that covering DSG deficits from general funds may lead authorities to make spending reductions in other services that they would not otherwise make.

The Government's intention is that DSG deficits should not be covered from general funds but that over time they should be recovered from DSG income. No timescale has been set for the length of this process.

The Department held discussions with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry of Housing, Communities and Local Government (MHCLG) about changes that we might make to the DSG conditions of grant and the regulations in order to create certainty that local authorities will not have to pay for DSG deficits out of their general funds. The proposals that we made in the consultation following these discussions are described below, and were intended for implementation from the start of the financial year 2020-21, so that local authorities would take them into account in setting budgets for 2020-21.

## Proposals

We proposed to change the conditions of grant for the DSG with effect from the end of the financial year 2019-20 (ie, any overspend at the end of 2019-20 will fall under the new arrangements). This was therefore expected to inform and affect budget setting processes for 2020-21, as well as the presentation of reserves in the annual accounts for 2019-20. Subject to the outcome of consultation, we proposed that future arrangements for dealing with overspends would be worded as follows:

- the local authority must carry forward the whole of the overspend to the schools budget in future years;
- the local authority may not fund any part of the overspend from its general resources, unless it applies for and receives permission from the Secretary of State to do so.

The main reason for including the second bullet was that some local authorities have traditionally made small contributions from their general fund to some elements of the schools budget, unconnected to considerations relating to DSG deficits, and we would not wish to prevent this in future.

On this we asked:

**Question 1:** Do you agree that we should change the conditions of grant so that future arrangements for dealing with DSG overspends are worded as follows:

- the local authority must carry forward the whole of the overspend to the schools budget in future years;
- the local authority may not fund any part of the overspend from its general resources, unless it applies for and receives permission from the Secretary of State to do so.

As noted in the context section, carrying forward an overspend to the schools budget in future years currently requires the consent of the local schools forum, or if that is not forthcoming the authorisation of the Secretary of State. This is set out in [regulations 8\(6\) and 8\(10\) of the School and Early Years Finance \(England\) \(No 2\) Regulations 2018](#). If the conditions of grant are changed so that the local authority must carry forward the whole of any DSG overspend to the schools budget in future years, it would no longer make sense to require the schools forum to agree such a carry forward. We therefore proposed to delete regulations 8(6) and 8(10) from the new regulations for the financial year 2020-21. On this we asked:

**Question 2:** Do you agree that we should delete regulations 8(6) and 8(10) from the new School and Early Years Finance (England) Regulations for the financial year 2020-21, so that local authorities are able to carry forward any DSG overspend to the schools budget in future years as the new conditions of grant will require?

The purpose of making these changes to the conditions of grant and to the regulations was to establish clearly that local authorities would not be required to cover any DSG deficit from general funds, and therefore do not need to have free general reserves available to match the deficit. On this we asked:

**Question 3:** Do you agree that the proposed new conditions of grant and regulations will establish clearly that local authorities will not be required to cover any DSG deficit from general funds?

## Summary of responses received

This section summarises the responses that we received to the consultation. It is followed by a more detailed account of responses to Question 1, 2 and 3.

In total there were 153 responses to the consultation, though one respondent did not answer any of the three questions.

A list of the organisations that have responded can be found at Annex A, other than those who asked for their response to be kept confidential. 91 of the responses were from LAs, 8 from schools forums and 52 from other bodies. “Other” respondents included maintained schools, academies, parents and SEND campaigning organisations. One LA auditor responded – Grant Thornton.

There was a substantial majority among all respondents in favour of all three proposals, ranging from 73% on Question 2 to 59% on Question 3. The majority in favour among LAs was even bigger, ranging from 91% on Question 2 to 65% on Question 3.

The most common reasons for opposing the first proposal were that it would reduce local authority autonomy and a concern that it might prevent local authorities from meeting the needs of pupils with special education needs and disabilities (SEND). Opposition to proposal 2 came mostly from schools. A number of local authorities supported proposal 1 but said this was subject to comments they had made under Question 3 about the need to strengthen the proposed arrangements to satisfy Chief Finance Officers and auditors.



## Question analysis

### Question 1

*Do you agree that we should change the conditions of grant so that future arrangements for dealing with DSG overspends are worded as follows:*

- the local authority must carry forward the whole of the overspend to the schools budget in future years;*
- the local authority may not fund any part of the overspend from its general resources, unless it applies for and receives permission from the Secretary of State to do so.*

Response	Number	%	Local authority	Schools forum	Other
Yes	102	67	76	3	23
No	39	25	7	5	27
Not sure	11	7	7	0	4
Not answered	1	1	1	0	0

Respondents who agreed with the proposal felt that this change would provide clarity about the treatment of overspends in Local Authority accounts.

The revised conditions of grant would help LAs, schools and the schools forum to have clarity about the funding available. This would facilitate discussion with schools forums and schools to ensure appropriate mechanisms are in place to minimise the risk of future DSG pressures and increasing DSG deficits. This would be particularly important with regard to the High Needs Block where many LAs are experiencing significant pressures.

Several respondents called for the Department to issue guidance on expected actions by LAs, schools and schools forums in terms of managing the length of time deficits are held for, actions required, and monitoring of progress.

Many respondents who agreed with the proposal and some who were not sure said that the proposal needed to be strengthened, so that it was clearer both that the requirement to carry a deficit forward from year to year was statutory and that the Department would if necessary assist LAs who were unable to clear a historic deficit from their future DSG income.

The majority of respondents who disagreed with the proposal were bodies other than

LAs and schools forums. One concern was that mainstream schools would ultimately suffer if an LA continues to carry a DSG deficit, and would need to contribute to eliminating the deficit. Another was that LAs would not be able to carry out their high needs duties if they were unable to draw on general funds.

Some respondents requested that reforms to the management of overspends on the DSG should be postponed until the Department has completed the SEND review.

Some LAs considered that the proposal was taking away their autonomy to manage their own budgets and opposed the principle of doing that.

## Question 2

*Do you agree that we should delete regulations 8(6) and 8(10) from the new School and Early Years Finance (England) Regulations for the financial year 2020-21, so that local authorities are able to carry forward any DSG overspend to the schools budget in future years as the new conditions of grant will require?*

Response	Number	%	Local authority	Schools forum	Other
<b>Yes</b>	<b>111</b>	<b>73</b>	<b>83</b>	<b>4</b>	<b>24</b>
<b>No</b>	<b>33</b>	<b>22</b>	<b>4</b>	<b>4</b>	<b>25</b>
<b>Not sure</b>	<b>8</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>5</b>
<b>Not answered</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>

Respondents who agreed with the proposal commented that it made sense that if DSG overspends had to be carried forward, it should not be within the power of the local schools forum to block the carry forward. The change would provide clarity and all LAs and school forums would work on the same basis.

Respondents who disagreed with the proposal did so mostly on the basis that the LA should not be prevented from using general funds to cover overspends in the schools budget. Some also commented that the schools forum should still have a role in this process so that there is adequate governance for DSG spending, or that local checks and balances through the schools forum were important.

### Question 3

*Do you agree that the proposed new conditions of grant and regulations will establish clearly that local authorities will not be required to cover any DSG deficit from general funds?*

Response	Number	%	Local authority	Schools forum	Other
Yes	90	59	59	5	26
No	40	26	20	2	15
Not sure	21	14	11	1	9
Not answered	2	1	1	0	1

The majority of the respondents answered yes to this question, but there were additional comments such as:

- it is important that the overall DSG High Needs funding allocation is sufficient.
- the consequences for all residents including vulnerable children and adults of enforcing conditions that pass liability onto the LA would be very serious - if local authorities were required to fund DSG overspends from the General Fund, it is not inconceivable that this could lead the S151 officer to issue a S114 notice (a S114 notice is a declaration that an LA's expenditure in a financial year is likely to exceed the resources available to it to meet that expenditure).
- if DSG deficits can therefore only be recovered from future DSG income it will be crucial that timescales for this recovery are set by the LA (in consultation with the schools forum) and submitted for approval by the DfE.

Many of those who answered no to the question said that the proposals would need to be amended, in particular to strengthen the statutory backing for the ring-fence. A few bodies other than LAs or schools forums claimed that the proposals could prevent LAs from carrying out their legal duty to fund SEN provision.

## Government response

The overall response to the consultation was positive, especially on the part of LAs. Consequently the Government intends to proceed with implementing the proposals.

It was however clear from the views of key stakeholders that the proposals needed strengthening in two respects: giving statutory backing to the new ring-fence arrangements, and clarifying that, where LAs were otherwise unable to clear their DSG deficits, the Department would agree a plan of action with them to enable these LAs to pay off their deficit over time.

We are achieving this strengthening through three changes.

### Statutory backing

Instead of making changes only to the conditions of grant as we had proposed in the consultation, to clarify the ring-fenced status of DSG and how DSG deficits must be handled, we are now putting provisions into the School and Early Years Finance (England) Regulations 2020 which will come into force in February 2020. We will as proposed delete regulations 8(6) and 8(10) which required schools forum approval for the carrying forward of deficits, but we will replace them with new provisions as follows:

“Schedule 2, insert new part 8 under the heading “Deficit from previous funding period”.

*Expenditure in relation to any deficit in respect of the local authority’s schools budget from the previous funding period.*

Insert at an appropriate place in regulation 8 new paragraphs as follows:

*(x) Where a local authority has expenditure falling within Part 8 of Schedule 2, it must –*

*(i) deduct all of that expenditure from its schools budget*

*(ii) deduct such part of that expenditure as the authority may determine and carry forward the remaining part to the next funding period; or*

*(iii) carry forward all of that expenditure to the next funding period.*

*(y) A local authority may apply to the Secretary of State for authorisation under regulation 31(1) to disregard the requirements in paragraph (x)”*

The impact of these statutory provisions will be that an LA with a DSG deficit from the previous year must either:

- (i) carry the whole of the deficit forward to be dealt with in the schools budget for the new financial year (deducting all of it under (x)(i) from the money available for that financial year);
- (ii) carry part of it forward into the new financial year and the rest of it into the following financial year (using (x)(ii));
- (iii) carry all of it into the following financial year (using (x)(iii)); or
- (iv) apply to the Secretary of State under (y) for authorisation to disregard the requirements in (x) if it wishes to fund any part of the deficit from a source other than the DSG.

This will make it entirely clear on a statutory basis that a DSG deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises the LA not to do this.

We will still make corresponding changes to the conditions of grant to bring them into line with the regulations.

So under the new arrangements set out in the School and Early Years Finance (England) Regulations 2020 and in the DSG conditions of grant for 2020-21, LAs will have either to carry forward any cumulative deficit in their schools budget to set against DSG in the next funding period (Y+1); or carry forward some or all of the deficit to the funding period after that (Y+2), in order to determine how much resource is available to be spent during the funding period (Y+1). These arrangements will begin to operate from budget setting for the financial year 2020-21 and will therefore affect any deficits held at the end of 2019-20 (we will amend the conditions of grant to make this entirely clear). The same provisions will appear in future regulations so that LAs can continue to carry deficits forward from year to year.

The effect of these provisions is that LAs will not be permitted to fund any part of the deficit from sources other than the DSG (and any specific grants whose conditions allow them to be applied to the schools budget) without the authorisation of the Secretary of State. If a LA wishes to use other sources, it must apply to the Secretary of State for authorisation to disregard the new arrangements. We would not wish to place barriers in the way of LAs that have used other sources to supplement the DSG for particular reasons such as PFI costs; or of LAs who want voluntarily to use small annual sums in support of their high needs budgets.

## **Clarification of financial support for LAs**

In the financial year 2020-21 the total allocated to the high needs block within the DSG is rising by 12%. Overall funding for schools and high needs, compared with 2019-20, is increasing by £4.8bn in 2021-22 and £7.1bn in 2022-23, and will need to be split between schools and high needs. In making that decision we will be mindful of the pressures on high needs.

The SEND review (see <https://www.gov.uk/government/news/major-review-into-support-for-children-with-special-educational-needs>) will also report during 2020, and has been tasked with looking at how to arrive at a fair and sustainable system of high needs support for the future.

In the context of rising high needs funding over the next few years, the Department expects that most of those LAs with a DSG deficit will be able to bring their high needs budget into in-year balance, and go on to recover the deficit by managing their expenditure within the larger DSG total. The Department will work with LAs to help them do this.

The Department recognises that this process will be difficult for some LAs. As we have previously said, we intend to review the funding formula for high needs over the next year or two, and in doing so will take account of the patterns of expenditure that LAs' deficits, alongside other evidence, will help to identify; and what they tell us about LAs' need to spend. As part of the review, we will identify any changes needed to the current formula so that it reflects LAs' need to spend.

Nonetheless, we recognise also that there may well be some LAs which, even if they can stabilise their in-year expenditure on high needs, will still not be able to pay off their historic deficit within a reasonable time. The Department will set criteria and will need convincing evidence from LAs that this is the case. Where the criteria are met, the Department will agree a plan of action with the LA to enable it to pay off its deficit over time. The plan will include appropriate additional conditions of grant designed to secure the most efficient use of resources. These would depend on the situation and context, but could include – for example – changes to local SEND policy or practice, management change or sign off of budget plans by the Department.

## **Dealing with cashflow problems**

The new arrangements set out in this document will clarify the procedures for LAs to carry DSG deficits forward from year to year. The Department recognises, however, that LAs could experience cashflow difficulties in actually financing in-year spending. If an LA is able to prove that it has such cashflow problems, the Department will be willing to consider bringing forward funding which would then be subtracted from future years' allocations. Again, this would be subject to appropriate additional conditions of grant to secure the most efficient use of resources.

## **Responses on other points**

Some respondents said that the proposals would reduce the autonomy of LAs. That is to a degree true, but only where the LA has a DSG deficit. We judge that this reduction of autonomy is justified in order to clarify the ring-fenced status of DSG.

Some respondents said that the schools forum should still have a role in deciding whether DSG deficits should be carried forward. We do not think that this is a practical arrangement once the carry forward becomes mandatory. LAs should however work closely with their schools forums on their plans for managing DSG deficits: we are adding that to the DSG conditions of grant.

Some respondents requested that the proposals should be postponed until after the SEND review has been completed. However, we believe that the changes will bring positive impact for local authorities in 2020-21 and should therefore be implemented now.

Some respondents argued that the burden of bringing DSG expenditure into line with resources over time would fall on mainstream schools. The Government has already set limits on the amount of resource that can be moved out of the DSG Schools Block, and intends to move further towards a hard formula, where mainstream schools are guaranteed to receive their allocations under the National Funding Formula.

Finally, some respondents argued that the changes would prevent LAs from carrying out their legal duties to fund SEND. The Department does not accept that. The duty to fund SEND under the 2014 Children and Families Act is unaffected, and the only change is that the cost must in the end be met from successive years' DSG allocations, unless the Secretary of State authorises that the LA can meet some of it from other funds.

## **Public sector equality duty**

In making decisions on the consultation Ministers have had regard to the public sector equality duty under section 149 of the Equality Act 2010. The protected characteristic most obviously relevant to this consultation is disability. If the proposals in the consultation are not implemented, LAs are likely to come under pressure to reduce their spending, and may look particularly at making short term and unplanned reductions to spending on those with SEND. Implementing the proposals is therefore likely to be beneficial to this group. We do not believe that implementation will have a significant detrimental effect on those that share any other protected characteristic.

## **Next steps**

The School and Early Years Finance (England) Regulations 2020 will come into force in February 2020. The Department will amend the DSG conditions of grant for both 2019-20 and 2020-21 to bring them into line with the new end-year arrangements for carrying forward DSG deficits.

CIPFA, MHCLG and the Department are working on issuing guidance about the changes.

The Department will remain in contact with those LAs who have significant DSG deficits in order to offer advice and help on their future handling: we are providing for these arrangements in the DSG conditions of grant.



## Annex A: List of organisations that responded to the consultation

### Local Authorities:

- Barnsley Metropolitan Borough Council
- Bath and North East Somerset Council
- Blackburn with Darwen Borough Council
- Bournemouth, Christchurch and Poole Council
- Bracknell Forest Council
- Brighter Futures for Children (on behalf of Reading Borough Council)
- Brighton & Hove City Council
- Bristol City Council
- Buckinghamshire County Council
- Calderdale Metropolitan Borough Council
- Cambridgeshire County Council
- Central Bedfordshire Council
- Cheshire East Council
- Cumbria County Council
- Devon County Council
- Doncaster Metropolitan Borough Council
- Durham County Council
- East Riding of Yorkshire Council
- East Sussex County Council
- Essex County Council
- Halton Metropolitan Borough Council
- Hampshire County Council
- Hartlepool Borough Council
- Herefordshire Council
- Hertfordshire County Council
- Isle of Wight Council
- Kent County Council
- Kirklees Council
- Lancashire County Council
- Leeds City Council
- Leicester City Council
- Leicestershire County Council
- Lincolnshire County Council
- Liverpool City Council
- London Borough of Barking & Dagenham
- London Borough of Bromley
- London Borough of Hackney
- London Borough of Havering
- London Borough of Lewisham
- London Borough of Newham
- London Borough of Richmond upon Thames
- London Borough of Sutton

- London Borough of Tower Hamlets
- London Borough of Waltham Forest
- London Borough of Wandsworth
- Manchester City Council
- Medway Council
- Milton Keynes Council
- Newcastle City Council
- Norfolk County Council
- North Somerset Council
- North Tyneside Council
- Nottingham City Council
- Nottinghamshire County Council
- Oldham Metropolitan Borough Council
- Oxfordshire County Council
- Plymouth City Council
- Redcar and Cleveland Borough Council
- Rotherham Metropolitan Borough Council
- Royal Borough of Kensington & Chelsea
- Royal Borough of Kingston upon Thames
- Rutland County Council
- Salford City Council
- Sefton Council
- Slough Borough Council
- Solihull Metropolitan Borough Council
- Somerset County Council
- South Gloucestershire Council
- South Tyneside Council
- Southend on Sea Borough Council
- St Helens Council
- Stockton-on-Tees Borough Council
- Suffolk County Council
- Surrey County Council
- Swindon Borough Council
- Thurrock Council
- Trafford Council
- Wakefield Metropolitan Borough Council
- Warrington Borough Council
- Warwickshire County Council
- Westminster City Council
- Wigan Council
- Wiltshire County Council
- Worcestershire County Council

### **School Forums**

- Birmingham Schools Forum
- Oxfordshire Schools Forum
- Wiltshire Schools Forum
- Warwickshire Local Authority Schools Forum x2

### **Other Interested Parties**

- Ambitious about Autism
- Buttsbury Infant School
- Buttsbury Junior School
- Castletown Primary School
- Catholic Education Service
- Central Learning Partnership Trust
- Christ Church C.E. Primary School
- Downs View School
- Effervesce
- Grant Thornton UK LLP
- Hackney Special Education Crisis
- Inclusion East, Hertfordshire
- Kemnal Academies Trust
- MFG Academies Trust
- National Deaf Children's Society
- North Worcestershire Autism Parents Support Group
- Reading local family forum
- Send National Crisis
- Send National Crisis - Hammersmith and Fulham
- Society of County Treasurers
- Society of London Treasurers
- St Catherine's Primary School
- Weald of Kent Grammar School
- Woodlands Academy School
- Wentworth Nursery School
- Wildern Academy Trust
- Valance School



Department  
for Education

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**Committee Name and Date of Committee Meeting**

Audit Committee – 26 May 2020

**Report Title**

Closure of the Accounts 2019/20 – Update due to Covid-19

**Is this a Key Decision and has it been included on the Forward Plan?**

No

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director of Finance and Customer Services

**Report Author(s)**

Rob Mahon (Head of Corporate Finance)  
Finance & Customer Services Directorate  
01709 254518 [rob.mahon@rotherham.gov.uk](mailto:rob.mahon@rotherham.gov.uk)

**Ward(s) Affected**

Borough-Wide or Choose an item.

Choose an item.

**Report Summary**

The principal objective of the Council's annual financial statements is to make the Council accountable to a range of local and national stakeholders over the stewardship of its resources.

It is therefore important that the Council's financial statements are prepared in accordance with recognised accounting standards so that they can be relied upon by users of the accounts.

This report brings to Members attention the main changes required to the Council's timetable for the production of the financial statements, as a result of Covid-19. With the most notable change being that Members of the Audit Committee, as the body in the Council charged with governance, will now need to formally approve the audited Statement of Accounts at its November meeting.

**Recommendations**

1. Audit Committee is asked to note the revised timetable for the production of the Council's financial statements.

**List of Appendices Included**

**Background Papers**

CIPFA Code of Practice on Local Authority Accounting 2019/20  
Accounts and Audit Regulations 2015

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No

**Council Approval Required**

No

**Exempt from the Press and Public**

No

## **Closure of the Accounts 2019/20**

### **1. Background**

- 1.1 The Code of Practice on Local Authority Accounting (the Code) together with the Accounts and Audit Regulations set the accounting and statutory framework for local authority financial reporting.
- 1.2 The Code is based on internationally recognised accounting standards (International Financial Reporting Standards (IFRS)). These form the basis for large private sector companies financial reporting. However, the funding of Local Government by central government and local tax payers is in some key aspects very different from that under IFRS. This makes local authority financial statements complex and difficult to interpret due to the need to reconcile the Council's financial performance and financial position under IFRS with that under the arrangements for funding local government.
- 1.3 Following the outbreak of Covid-19 Councils across the UK have been working hard to manage the response to this significant challenge. To alleviate pressure on finance teams CIPFA/LASAAC have considered radical proposals to streamline the 2019/20 accounts in order to enable their production in this challenging period. However, the initial proposals to simplify 2019/20 Annual Accounts were not acceptable to regulators and auditors. In addition, HM Treasury's view was that arguably, some of the proposals do not meet the requirement of Whole of Government Accounts (WGA). As it was considered that the minor changes proposed to the code would generate additional work that would outweigh any benefits.
- 1.4 In order to create certainty, the CIPFA/LASAAC Board has resolved that in the absence of regulator and audit support, the status quo position will hold for full application of the 2019/20 Code. However, CIPFA encourages the application of local judgement on what disclosures should be made in order to alleviate organisational pressures on councils.
- 1.5 In addition, the UK Government Financial Reporting Advisory Board (the 'FRAB') is considering potential relaxations in the accounting and disclosure requirements for 2019/20 local authority annual reports. The National Audit Office (NAO) is also "talking to audit firms about how audits can be conducted in the circumstances".

## 2. Key Issues

### Revised Timetable

2.1 Whilst the physical make-up of the financial statements and accounting code remains the same, the timetable for their production has been stretched. The timetable for the production of 2019/20 accounts has been extended for all local public authorities, apart from health service bodies. The key changes are noted below;

- the publication date for final, audited, accounts will move from 31 July to **30 November 2020** for all local authority bodies.
- In light of this draft accounts must be approved by **31 August 2020** at the latest or may be approved earlier, wherever possible.
- To give local authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June has been removed. Instead local authorities must commence the public inspection period **on or before the first working day of September 2020**.
- It is also recommended that authorities provide public notice on their websites (where available) when the public inspection period would usually commence, explaining why they are departing from normal practice for 2020.

2.2 The Council has subsequently considered its position to establish a reasonable timeframe that, in the current circumstances, allows adequate time for the production of the draft accounts, whilst leaving suitable time for the necessary audit of those accounts. The Council's revised timetable is shown below, these dates have been discussed with the Council's external auditors Grant Thornton who have confirmed that they are happy to work with these dates and will be able to audit the Council's accounts within the dates specified.

### Revised Statement of Accounts Timetable (key dates)

Action	Original Date	RMBC proposed
Unaudited accounts published	31 May 2020	31 July
Unaudited accounts presented to Audit Committee along with & Narrative Report & Annual Governance Statement	23 June 2020	18 August 2020
Public Inspection of Draft Accounts	1 June to 10 June 2020	1 August to 10 August 2020



External Audit of the Councils Accounts	June 2020	August 2020 (TBC)
Audited Accounts Published	31 July	30 November 2020
Audited accounts presented to Audit Committee along with & Narrative Report & Annual Governance Statement	31 July	24 November 2020

### **3. Options considered and recommended proposal**

- 3.1 There is no discretion on whether to comply with the Code or the Accounts and Audit Regulations. The purpose of the recommendations is simply for Audit Committee to note the changes to the local authority accounting framework in 2019/20 and to note the actions being taken by officers to ensure that they are being implemented.

### **4. Consultation on proposal**

- 4.1 Close liaison continues to be maintained with the Council's External Auditors to ensure that complex accounting issues and action taken in response to changes to the local authority accounting framework are agreed in advance of the financial statements being prepared.

### **5. Timetable and Accountability for Implementing this Decision**

- 5.1 The statutory deadline for publishing the unaudited financial statements is 31 August. The statutory deadline for publishing the audited financial statements is 30 November.

### **6. Financial and Procurement Advice and Implications (to be written by the relevant Head of Finance and the Head of Procurement on behalf of s151 Officer)**

- 6.1 There are no financial or procurement implications directly associated with closure of the accounts, other than the impact on the audit fee of having good quality financial statements and supporting working papers which meet Grant Thornton's expectations.

### **7. Legal Advice and Implications (to be written by Legal Officer on behalf of Assistant Director Legal Services)**

- 7.1 None, other than ensuring compliance with the requirements of the Accounts and Audit Regulations 2015.

**8. Human Resources Advice and Implications**

8.1 There are no Human Resource implications arising from the report.

**9. Implications for Children and Young People and Vulnerable Adults**

9.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

**10. Equalities and Human Rights Advice and Implications**

10.1 There are no implications arising from this report to Equalities and Human Rights.

**11. Implications for Partners**

11.1 The NHS requires information on how the pooled budgets operated under the Better Care Fund have been spent to an earlier timetable than that of the Council. Arrangements have been made to ensure this earlier timetable is met. There are no other implications arising from this report to Partners.

**12. Risks and Mitigation**

12.1 Robust project management arrangements have been put in place to ensure that the timetable is adhered to and quality standards met.

**13. Accountable Officer(s)**

Judith Badger (Strategic Director of Finance & Customer Services)

Approvals obtained on behalf of:-

	<b>Named Officer</b>	<b>Date</b>
Chief Executive		Click here to enter a date.
Strategic Director of Finance & Customer Services (S.151 Officer)	Graham Saxton	18/05/20
Assistant Director of Legal Services (Monitoring Officer)	Named officer	Click here to enter a date.
Assistant Director of Human Resources (if appropriate)		Click here to enter a date.
Head of Human Resources (if appropriate)		Click here to enter a date.

*Report Author:* Rob Mahon (Head of Corporate Finance)  
Finance & Customer Services Directorate  
01709 254518 [rob.mahon@rotherham.gov.uk](mailto:rob.mahon@rotherham.gov.uk)

This report is published on the Council's [website](#).

**Council Report**

Audit Committee Meeting – 26<sup>th</sup> May 2020.

**Title**

Internal Audit Self-Assessment against the Public Sector Internal Audit Standards.

**Is this a Key Decision and has it been included on the Forward Plan?**

No.

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director, Finance and Customer Services.

**Report Author(s)**

David Webster, Head of Internal Audit

Tel: 01709 823282 Email: david.webster@rotherham.gov.uk

**Ward(s) Affected**

All wards.

**Report Summary**

All Internal Audit departments in Local Government must comply with the Public Sector Internal Audit Standards (PSIAS). The standards include the need for an annual self-assessment to confirm compliance, with an external assessment at least every five years. An external assessment was completed by PwC in 2015-16, who found that the department did not conform to the standards, resulting in an Action Plan to improve the department. An internal self-assessment was completed in January 2017 which showed that substantial progress had been made so that the department demonstrated partial conformance with the standards. Further self-assessments in January 2018 and January 2019 showed that sufficient progress had been made to conclude that the department had general conformance with the standards.

This paper reports the results of the internal self-assessment for January 2020. It reaffirms the conclusion of general conformance with the standards.

An external validation of the self-assessment was agreed by the Audit Committee and planned to take place in April and May 2020. It has been postponed and is now planned for late 2020.

**Recommendations**

The Audit Committee is asked to:

- 1) Note the result of the self-assessment against the PSIAS.
- 2) Confirm that an external peer review should be completed in late 2020.

**List of Appendices Included**

Chartered Institute of Internal Audit definitions of levels of conformance.

**Background Papers**

Public Sector Internal Audit Standards and Associated Local Government Application Note.

Audit Committee paper November 2019.

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No.

**Council Approval Required**

No.

**Exempt from the Press and Public**

No.

## **Internal Audit Self-Assessment against the Public Sector Internal Audit Standards.**

### **1. Background**

- 1.1 Professional Standards for Internal Audit are set out in the Public Sector Internal Audit Standards (PSIAS). These require an annual internal assessment of conformance against the standards, with an independent assessment of internal audit at least every 5 years.
- 1.2 In 2015, the Interim Director of Finance and Corporate Services commissioned a review of Internal Audit to be conducted by PWC, following a competitive tender exercise. The PWC review was a comprehensive assessment. The report following the review was presented to the Audit Committee in February 2016. It recommended a number of actions required to improve the service and ensure compliance with audit standards.
- 1.3 One of the areas the review considered was the extent of Internal Audit's conformance with the PSIAS. Of the ten Standards tested at that time, Internal Audit was assessed as non-compliant in five, partially conforming in two and generally conforming in three.
- 1.4 An Action Plan was produced and the internal assessment in January 2017 showed an overall Partial Conformance with PSIAS. Further internal assessments in January 2018 and 2019 showed that sufficient progress had been made to conclude that the department had general conformance with the standards.
- 1.5 The Audit Committee agreed in November 2019 that the annual assessment for 2020/21 would be validated by an external peer review. This was planned to take place in April and May 2020 but had to be postponed due to Covid-19. It will now take place towards the end of 2020.
- 1.6 The Chartered Institute of Internal Auditors (CIIA) definitions and guidance for conformance with the Standards are given in Appendix A.

### **2. Key Issues**

- 2.1 The self-assessment for 2019/20 has been completed. This self-assessment used the checklist developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). When arranging for peer review external assessments between Councils in South and West Yorkshire, for consistency it was agreed to use this checklist.
- 2.2 The review consists of an assessment against the Mission and Definition of Internal Audit, the Core Principles and Code of Ethics, and the four attribute standards and seven performance standards.
- 2.3 In each case the conclusion was that the department generally conforms with the requirements. Some individual areas where further improvement could be made were identified and these have become the action points in the Quality Assurance and Improvement Programme for 2020.

Key actions include:

- Assess the need for IT audit
- Develop the use of Computer Aided Audit Techniques (CAATS)
- Increased stakeholder feedback on performance

(nb this is not a full list)

### **3. Options considered and recommended proposal**

3.1 Internal Audit work through the Quality Assurance and Improvement Plan to address those areas of PSIAS that have been self-assessed as requiring improvement.

3.2 The external assessment to be carried out in late 2020

### **4. Consultation on proposal**

4.1 The report is presented to the Audit Committee to enable it to fulfil its responsibility for overseeing the work and standards of internal audit.

### **5. Timetable and Accountability for Implementing this Decision**

5.1 The Audit Committee is asked to receive this report at its May 2020 meeting.

5.2 Actions will be completed during 2020.

### **6. Financial and Procurement Advice and Implications**

6.1 There are no direct financial or procurement implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Customer Services Directorate.

### **7. Legal Advice and Implications**

7.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state:

*“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

7.2 Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are:

*“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”*

### **8. Human Resources Advice and Implications**

8.1 There are no direct Human Resources implications arising from this report.

**9. Implications for Children and Young People and Vulnerable Adults**

9.1 There are no direct implications for Children and Young People and Vulnerable Adults arising from this report.

**10. Equalities and Human Rights Advice and Implications**

10.1 There are no direct Equalities and Human Rights Implications arising from this report.

**11. Implications for Partners**

11.1 Internal Audit is an integral part of the Council’s Governance Framework, which is wholly related to the achievement of the Council’s objectives, including those set out in the Council Plan.

**12. Risks and Mitigation**

12.1 The following risk has been identified.

Risk	Impact	Likelihood	Mitigation
Failure to meet the requirements of the standards set down in the UK Public Sector Internal Audit Standards (PSIAS).	Low	Low	Ongoing monitoring. Internal assessment shows areas where standards are not currently met. Produce and implement Quality Assurance and Improvement Plan.

**13. Accountable Officer(s)**

David Webster, Head of Internal Audit.  
Tel 01709 823282 E mail david.webster@rotherham.gov.uk

**EVALUATION PROCEDURE**

- Examine and reflect upon the requirements of the *Definition of Internal Auditing*, the *Code of Ethics* and each *International Standard*. Use the relevant *Interpretation* within the Standards to build your understanding.
- Consider the key conformance criteria that will demonstrate compliance. You may wish to add other conformance criteria that are specific to your organisation or there may be additional criteria you wish to suggest.
- Record the full range and extent of the evidence that exists within the internal audit activity and the organisation that demonstrates conformance with the *Standard*. There are lots of ways to gather information to support your assessments. This might include interviews with stakeholders and internal auditors as well as reviewing files, work papers reports and personnel records. As a result you may need to prepare an interview schedule and timetable.
- Compare the evidence to the key conformance criteria and assess the degree of conformance. Use the definitions that are provided below to guide your evaluation. Any of the key conformance criteria that is not achieved, would strongly suggest a rating of '**does not conform**' or '**partially conforms**'.
- Record the assessments in the table provided shading the boxes green, amber or red. Use this to present a summary of the results and to make an overall assessment. If most of the *Standards* are judged to be '**does not conform**', then the overall assessment must be '**does not conform**'.

**Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

**Partially Conforms** means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

**Does Not Conform** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.



**Committee Name and Date of Committee Meeting**

Audit Committee – 26<sup>th</sup> May 2020.

**Report Title**

Internal Audit Quality Assurance and Improvement Programme (QAIP).

**Is this a Key Decision and has it been included on the Forward Plan?**

No.

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director, Finance and Customer Services.

**Report Author**

David Webster, Head of Internal Audit

Tel: 01709 823282

Email: david.webster@rotherham.gov.uk

**Ward(s) Affected**

Borough-Wide.

**Report Summary**

Internal Audit is a major source of assurance to the Council on the framework of control, risk management and governance. It is therefore important that it operates in conformance with Public Sector Internal Audit Standards.

An internal self-assessment was completed in January 2019 which showed general conformance with those standards. A Quality Assurance and Improvement Programme (QAIP) was produced to address the areas where conformance was not achieved, or further improvement could be made.

The Improvement Programme has been implemented since then. The latest annual self-assessment has now been completed, still showing general conformance with the standards. However, there are still actions that can be taken to maintain and improve performance. This paper shows the status of actions in last year's QAIP and the actions to be taken over the coming year.

**Recommendations**

The Audit Committee is asked to note the production and ongoing implementation of the QAIP based on the internal self-assessment reported to this committee.

**List of Appendices Included**

Appendix A Quality Assurance and Improvement Plan 2019 Actions

Appendix B Quality Assurance and Improvement Plan 2020

**Background Papers**

Public Sector Internal Audit Standards.  
Accounts and Audit (England) Regulations 2015.  
Audit Committee Paper February 2018.

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No.

**Council Approval Required**

No.

**Exempt from the Press and Public**

No.

## **Internal Audit Quality Assurance and Improvement Programme.**

### **1. Background**

- 1.1 Internal Audit is required to operate in accordance with the Public Sector Internal Audit Standards (PSIAS). Those standards require the existence of a Quality Assurance and Improvement Plan.
- 1.2 The QAIP requires ongoing and periodic reviews of quality within Internal Audit. A self-assessment was completed in January 2019 and the results reported to the Audit Committee. Where conformance to the standards was not achieved actions were generated which in total comprised the Improvement Action Plan for 2019. This self assessment used the checklist developed by the Chartered Institute of Internal Auditors (CIIA).
- 1.3 A further self-assessment has now been completed. This included evaluating progress against the QAIP and the production of a new QAIP based on the latest results. This self-assessment used the checklist developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). When arranging for peer review external assessments between Councils in South and West Yorkshire, for consistency it was agreed to use this checklist. The external review was planned for April/May 2020 but will now take place later in the year.

### **2. Key Issues**

- 2.1 The current position against the 2019 Improvement Action Plan is given in Appendix A. Many actions were completed during the year. Those that were not completed related to the use of Computer Aided Audit Techniques and the use of an overall survey of senior management. None of these affect the standard of work carried out by the team.
- 2.2 An updated QAIP has been produced using the results of the 2020 self-assessment and the resultant actions. This is given in Appendix B. Even when General Conformance has been achieved against individual standards, suggestions have been made where appropriate to drive further improvements.
- 2.3 Implementation of the actions will be progressed throughout the year.

### **3. Options considered and recommended proposal**

- 3.1 There is no discretion on whether to comply with the PSIAS. The purpose of the report is to inform the Audit Committee of the QAIP that has been put in place and is being implemented.

### **4. Consultation**

- 4.1 None.

### **5. Timetable and Accountability for Implementing this Decision**

- 5.1 The Audit Committee is asked to receive this report at its 29<sup>th</sup> January 2019 meeting.

**6. Financial and Procurement Implications**

6.1 There are no direct financial or procurement implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Customer Services Directorate.

**7. Legal Advice and Implications**

7.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state:

*“each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

7.2 Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are:

*“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”*

**8. Human Resources Advice and Implications**

8.1 There are no direct Human Resources implications arising from this report.

**9. Implications for Children and Young People and Vulnerable Adults**

9.1 There are no direct implications for Children and Young People.

**10. Equalities and Human Rights Advice and Implications**

10.1 There are no direct Equalities and Human Rights Implications arising from this report.

**11. Implications for Partners**

11.1 Internal Audit is an integral part of the Council’s Governance Framework, which is wholly related to the achievement of the Council’s objectives, including those set out in the Council Plan.

**12. Risks and Mitigation**

12.1 The following risk has been identified.

Risk	Impact	Likelihood	Mitigation
Failure to meet the requirements of the standards set down in the UK Public Sector Internal Audit Standards (PSIAS).	Low	Low	Internal assessment shows areas where standards are not currently met. Produce and implement Quality Assurance and Improvement Plan.

**13. Accountable Officer**

David Webster, Head of Internal Audit.

## Quality Assurance and Improvement Plan – 2019

## Actions from assessment January 2019 – questions not scored as conforming. Current Position.

Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
	Overall			Date completed, version number and intended review date on Audit Charter, Manual, Service Plan	2019	Implemented. All dated, Charter and Service Plan updated annually.
1130	<p><b>Impairments to Independence or Objectivity</b></p> <p>If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.</p> <p><b>Interpretation:</b></p> <p>Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.</p> <p>The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board</p>	<p>CAE has established rules of conduct that clearly set out expected behaviour and defines the nature of conflict of interest and impairment of objectivity.</p> <p>This may include recognition or adoption of the organisation's Code of Practice provided this contains sufficient detail – including the acceptance of gift and hospitality. Where these do not exist or they lack clarity IA should formulate separate policies.</p> <p>Internal auditors are required to register hospitality and gifts, which is reviewed on a regular basis.</p> <p>Policies make auditors aware they must report any real or perceived conflict of</p>	<p>Included in Manual. Also expected to adhere to Council policies and Code of Practice.</p> <p>Annual declaration of interest completed by all auditors.</p> <p>All hospitality and gifts recorded.</p> <p>Included in manual.</p> <p>N/A</p>	<p>Audit Manual</p> <p>Consider suitable wording in the revised audit manual to cover perceptions of audit independence if an auditor is completing a long-term review over a number of years, the same audit more than for example 4 times. issues</p>	2019	Implemented. Included in Audit Manual para 2.4.3, no more than three times.

	<p>as described in the internal audit charter, as well as the nature of the impairment.</p> <p>1130. A1 Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.</p> <p>1130. A2 Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.</p> <p><b>1130 A3</b> – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement</p> <p>1130. C1 Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.</p> <p>1130.C2 If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.</p>	<p>interest as soon as such conflict arises.</p> <p>Procedures exist to support the policy and there is information to illustrate application – conflict of interest statements.</p> <p>Policy exists to ensure that assurance engagements of areas that are under the control or direct influence of the CAE are overseen by a party external to the CAE.</p> <p>IA engagements are rotated ensuring that activities and entities are not audited by the same auditor or where they have performed consulting services which may impair objectivity.</p> <p>The assignment of internal engagements are rotated to ensure that internal auditors involved in the development of systems and procedures do not review the management of risks and application of risk responses in these areas.</p>	<p>Engagements are allocated by PA's, taking this into account.</p> <p>As above.</p> <p>As above</p>			
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Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
1220	<p><b>Due Professional Care</b></p> <p>Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.</p> <p>1220.A1 Internal auditors must exercise due professional care by considering the:</p> <ul style="list-style-type: none"> <li>• Extent of work needed to achieve the engagement's objectives;</li> <li>• Relative complexity, materiality, or significance of matters to which assurance procedures are applied;</li> <li>• Adequacy and effectiveness of governance, risk management, and control processes;</li> <li>• Probability of significant errors, fraud, or non-compliance; and</li> <li>• Cost of assurance in relation to potential benefits.</li> </ul> <p>1220.A2 In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.</p> <p>1220.A3 Internal auditors must be alert to the significant risks that might</p>	<p>The IA activity formally defines how it operates in a series of policies and procedures. For some the collection of documents may take the form of an Internal Audit Manual.</p> <p>The policies and procedures specify the way audit files and working papers need to be kept to record the information gathered and analysis performed during the audit engagement.</p> <p>Policies and procedure recognise the elements and requirements of the IPPF.</p> <p>Internal auditors research and gather background information to help them prioritise objectives and set boundaries for each audit engagement – assurance and consulting.</p> <p>The objectives and priorities for audit engagements are discussed with senior management and stakeholders where appropriate.</p>	<p>Audit Manual comprehensively reviewed and updated in early 2017.</p> <p>Manual and updates specify the contents of files and working papers. Findings and conclusions adequately supported by working papers.</p> <p>Refers to PSIAS and LGAN, not IPPF, but includes elements and requirements.</p> <p>Yes. Utilise previous audit, internet, internal reports / policies, CIPFA matrices. Not formalised in a scoping document process.</p> <p>Yes, recorded in scoping document</p>	<p>Completion of review of Audit Manual needed again after implementation of audit software to reflect changes. and may include:</p> <p>Audit Manual Paragraph 1.1. Add a sentence - international standards and laws as interpreted by HM Treasury and other UK professional organisations and institutions.</p> <p><u>Consider Paragraph 1.8</u> new paragraph to include ISO31000 definition of risk management and internal audit's role in providing assurance on risk exposure when compared to the organisations approved risk appetite i.e. from our reviews is the risk exposure greater than the operational risk appetite and risk score for a specific service area.</p>	2019	<p>Implemented. Audit Manual updated to reflect audit software.</p> <p>N/A. Manual refers to CIIA / CIPFA interpretation of PSIAS, which encompass the CIIA International Professional Practices Framework.</p> <p>N/A. Not needed in manual. Audit of Risk Management was completed using the ISO31000 checklist.</p>



	<p>affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.</p> <p>1220.C1 Internal auditors must exercise due professional care during a consulting engagement by considering the:</p> <ul style="list-style-type: none"> <li>• Needs and expectations of clients, including the nature, timing, and communication of engagement results;</li> <li>• Relative complexity and extent of work needed to achieve the engagement's objectives; and</li> <li>• Cost of the consulting engagement in relation to potential benefits.</li> </ul>	<p>Audit engagements focus upon management's assessment of risk responses. Taking into consideration residual risk and management assurance upon the effectiveness of the risk response. Where this is not available internal auditors perform their own assessment of risks.</p> <p>Where appropriate audit engagements are supported by appropriate tools, including reporting within information systems, interrogation techniques and other CAATs.</p> <p>The communication of conclusions and audit opinions are based on appropriate information such as observations, tests, analyses and other documentation. This is indexed and classified in working papers linked to the engagement work programme, schedule of testing and audit objectives.</p>	<p>Audit planning is risk based. In previous years this has been the IA assessment of risk. With further development of council risk registers, management's assessment is now used.</p> <p>RBIA to be further developed.</p> <p>CAATS not used.</p> <p>Conclusions and opinions based on the results of working papers. All documented within MKI – Assurance Objective, risk test schedule, findings. Few consulting engagements completed.</p>	<p><u>CAATS</u> Training courses on MS Excel, Google Documents MS Excel CAATS software</p> <p>Consider a separate appendix in the Audit Manual on the use of CAATS, the same as for MK Insight and Risk Management</p>		<p>Not implemented.</p> <p>Implemented. Manual updated for CAATs, MK Insight and Risk Management.</p>
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Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
1230	<p><b>Continuing Professional Development</b></p> <p>Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development</p>	<p>There is a process to assess the training and development needs of internal auditors that provides input to the continuous professional development (CPD) programme required by the Institute.</p> <p>The process may be based upon the organisation's staff appraisal procedure but centres upon the development of professional proficiency and the changing demands upon the profession.</p>	<p>Annual appraisals completed for all staff, leading to identification of training needs. Programme of departmental training identified and being delivered – MKInsight training delivered, RBIA training arranged for March 2018.</p> <p>Individuals are responsible for update of their own CPD. A record is kept within the dept.</p> <p>Annual appraisals Professional CPD Corporate Training Service specific training Feedback from staff attending regional groups</p>	<p>Consider the cost of group IIA membership in partnership with another organisation</p>	<p>2019</p>	<p>Implemented. Group membership not feasible. Some members of the team have individual membership.</p>

Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
1300	<p><b>Quality Assurance and Improvement Programme (the sum of standards 1310-1320)</b></p> <p>The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.</p> <p><b>Interpretation:</b></p> <p>A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program</p>	<p>The QAIP is about establishing a culture of continuous improvement to prevent problems and to underpin day-to-day delivery of a reliable assurance and consulting service.</p> <p>This is led by the CAE who sets a vision, a strategy and service expectations through policies, procedures, review and oversight arrangements based upon stakeholder requirements and consultation with the internal audit team.</p> <p>Stakeholder expectations and the results of consultations with staff are documented.</p> <p>The establishment of QAIP and its purpose is reflected in the internal audit charter. This refers to the arrangements for supervision and review of the work that staff do</p>	<p>A QAIP action plan was produced after the internal review in January 2017. Procedures, audit manual and KPI's were updated.</p> <p>Service Plan completed and communicated to all staff – includes vision for the department. Charter includes Mission Statement and definition. Manual includes internal requirements. All work is subject to review.</p> <p>Not documented.</p> <p>Fully referred to in the Charter</p>	<p>Could include a customer questionnaire as part of the process to formulate the annual audit plan.</p>	2019	<p>Not implemented. Questionnaires used after each audit, reviewed and updated. No overall questionnaire used. To be developed.</p>

Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
1310	<p><b>Requirements of the Quality Assurance and Improvement Programme</b></p> <p>The quality assurance and improvement program must include both internal and external assessments.</p>	<p>There is a plan or schedule agreed with senior management and the board that sets out the type, nature and timing of future assessments – both internal and external.</p>	<p>Internal assessment made to Audit Committee in February 2017. This internal assessment to be presented in January 2019, with proposal for external assessment in 2019/2020</p>	<p>Proposal to be presented</p>	2019	<p>Implemented. Proposal to Audit Committee, external assessment planned.</p>
1312	<p><b>External Assessments</b></p> <p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:</p> <ul style="list-style-type: none"> <li>The form and frequency of external assessments.</li> <li>The qualifications and independence of the assessor or assessment team, including any potential conflict of interest.</li> </ul> <p><b>Interpretation:</b></p> <p>External assessments may be accomplished through a full external assessment, or a self-assessment with independent</p>	<p>The CAE consults with the board when deciding the frequency of the external assessment and the qualifications and independence of the external reviewer or review team.</p> <p>The assessor or assessment team is from outside the organisation and is free from any obligations to or interests in the organisation – in particular consulting services.</p> <p>Assessors are qualified, with appropriate competence and experience of IA – at least three years at manager level - and knowledge of leading practices in IA, as well as current, in-depth knowledge of the IPPF.</p> <p>There is evidence of comprehensive external assessments at least every 5 years (This includes peer</p>	<p>External assessment carried out in late 2015 by PwC.</p> <p>Internal assessments carried out in January 2017, January 2018 and January 2019. Proposed external assessment to be completed in 2019/20.</p>	<p>Propose external assessment for 2019/2020</p>	2019	<p>Implemented. Proposal to Audit Committee, external assessment planned.</p>

<p>external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.</p> <p>A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.</p> <p>An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to</p>	<p>assessment where there is an element of independence in the process).</p> <p>For some organisations external quality assessments may be carried out more regularly based upon regulatory or funding requirements – particularly the public sector.</p> <p>External audit assessments may also be appropriate where significant change has occurred within the organisation of internal audit activity.</p> <p>The external assessor concludes as to the conformance with the Code of Ethics and the Standards (as well as operational or strategic comments).</p>				
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	which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.					
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Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
2010	<p><b>Planning</b></p> <p>The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.</p> <p><b>Interpretation:</b></p> <p>To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.</p> <p>2010.A1 The internal audit activity plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process</p> <p>2010.A2 The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal</p>	<p>The CAE has established risk-based internal audit plans (RBIA) in consultation with the board and senior management that identifies where assurance and consultancy is required on risk management processes, management assurances and risk responses.</p> <p>The audit plan establishes a link between the proposed audit topics and the priorities and risks of the organisation taking into account:</p> <ul style="list-style-type: none"> <li>Stakeholder expectations, and feedback from senior and operational managers.</li> <li>Objectives set in the strategic plan and business plans, including major projects and financial forecasts.</li> <li>Risk maturity in the organisation to provide an indication of the reliability of risk registers.</li> <li>Management's identification and response to risk, including risk mitigation strategies and levels of residual risk.</li> <li>Legal and regulatory requirements.</li> </ul>	<p>RBIA in place, risk based plan used by the team. Known sources of assurance taken into account when planning, but full assurance mapping not completed.</p> <p>The plan is based on the priorities and risks of the organisation.</p> <p>Stakeholders are consulted in the preparation of the plan.</p> <p>The plan is based on strategic objectives.</p> <p>Risk management has been audited in 2017/18. Risk registers are used to produce the plan.</p> <p>Risk registers and management consultation give this.</p> <p>Regulatory work completed as necessary.</p>	<p>Assurance of audit coverage of the highest risks of the council.</p>	2019	<p>Implemented. Risk Registers used for planning, audits matched to high risks where applicable.</p>

	<p>audit opinions and other conclusions.</p> <p>2010.C1 The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organisation's operations. Accepted engagements must be included in the plan.</p>	<ul style="list-style-type: none"> <li>• The audit universe – all the audits that could be performed within the scope of the IA Charter.</li> <li>• Previous IA plans and the results of audit engagements.</li> </ul> <p>The CAE determines stakeholder expectations for IA opinions including the levels of assurance required, scope and the way assurance is given such as narrative or rating by discussion with senior management and the board.</p> <p>Where the organisation's risk maturity is at formative level – defined as 'naïve' or 'aware' - IA may perform consulting engagements to support the improvement of risk management. In this situation IA performs its own risk assessment in formulating risk-based IA plans.</p> <p>There is a degree of flexibility and contingency within IA plans to cater for the changing risk environment.</p>	<p>Audit universe completed and utilised.</p> <p>Taken into account during planning.</p> <p>Amended and agreed during 2016.</p> <p>N/A</p> <p>Plan includes contingency for responsive work. The plan is updated throughout the year as necessary to take into account any changes. All updates are reported to the Audit Committee.</p>			
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		<p>There is formal approval of the plan by the board – in some cases internal audit is required to formulate a plan for approval that enables them to provide an annual opinion. This is understood and reflected in discussions and approval of the plan with senior management and the board.</p>	<p>A mid-year review of the plan was completed, including consultation with Strategic Directors. This was reported to the Audit Committee.</p> <p>Plan approved by Audit Committee. Plan includes the work necessary to provide an annual opinion.</p> <p>The Audit Manual includes the use of Risk Registers as included in paragraphs 7.1.3 and 8.5</p> <p>Annual Audit Plan and associated working papers.</p>			
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Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
2040	<p><b>Policies and Procedures</b></p> <p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p> <p><b>Interpretation:</b></p> <p>The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work</p>	<p>There are appropriate policies and procedures, which are communicated to and understood by the staff of the internal audit activity.</p> <p>Internal auditors understand what is expected of them and the procedures recognise and apply the requirements of the IPPF</p> <p>Managers and the QAIP examine the application of policies and procedures – there is evidence to support supervision and quality management.</p> <p>Internal auditors meet to discuss the application of policies and procedures – with agreed actions.</p>	<p>Audit Manual, Audit Charter.</p> <p>Integrated audit software used, which helps regulate this.</p> <p>Training received for software, arranged for RBIA.</p> <p>There is ongoing review of work, showing supervision and quality management.</p> <p>Audit Manual, Audit Charter</p>	<p>Manual to be updated after software fully embedded.</p> <p>Procedures still being developed</p>	2019	<p>Implemented.</p> <p>Procedures developed and manual updated.</p>

Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
2110	<p><b>Governance</b></p> <p>The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes for:</p> <ul style="list-style-type: none"> <li>• Making strategic and operational decisions.</li> <li>• Overseeing risk management and control</li> <li>• Promoting appropriate ethics and values within the organisation.</li> <li>• Ensuring effective organisational performance management and accountability.</li> <li>• Communicating risk and control information to appropriate areas of the organisation.</li> <li>• Coordinating the activities of and communicating information among the board, external and internal auditors, other assurance providers and management.</li> </ul> <p>2110.A1 The internal audit activity must evaluate the design, implementation, and effectiveness of the organisations</p>	<p>IA reviews the activities in place that manage and monitor the effective implementation of the organisation's;</p> <ul style="list-style-type: none"> <li>• Ethics and values.</li> <li>• Codes of conduct.</li> <li>• Levels of authority and responsibility.</li> <li>• Strategic and operational objectives.</li> <li>• Compliance with laws and regulations.</li> <li>• Communication with stakeholders.</li> <li>• Risk management and control processes</li> <li>• Social and ethical objectives, including validation of reported results.</li> <li>• IT governance, including information security.</li> </ul> <p>Internal audit's consultancy engagements support the improvement of the organisation's</p>	<p>Not ethics.</p> <p>Reviewed.</p> <p>Not levels of authority and responsibility.</p> <p>Objectives – performance management included in plan.</p> <p>Compliance – regulatory audits</p> <p>Not Communications</p> <p>Reviewed.</p> <p>Not social and ethical objectives.</p> <p>IT governance and security part of audit plan. Work has been completed on the Information Governance Toolkit.</p> <p>Few consultancy engagements</p>	<p>Further development of governance to be included in the Annual Plan for 2019/20 including:</p> <p>Ethics – consider any use of local government ombudsman upheld complaints in audit planning</p> <p>Audit reviews of the scheme of delegation based on the long-term cost of the action not just the annual cost-whole life</p>	2019	<p>Implemented.</p> <p>Details of LGO complaints obtained.</p> <p>Implemented.</p> <p>Scheme of Delegation reviewed.</p>

	<p>ethics-related objectives, programmes, and activities.</p> <p>2110.A2 The internal audit activity must assess whether the information technology governance of the organisation supports the organisations strategies and objectives.</p>	<p>governance framework, including the board's self-assessment of performance, benchmarking and development of best practice based upon published reports such as the Combined Code.</p>				
2120	<p><b>Risk Management</b></p> <p>The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.</p> <p>Interpretation:</p> <p>Determining whether risk management processes are effective is a judgment resulting from the internal auditors assessment that:</p> <ul style="list-style-type: none"> <li>Organisational objectives support and align with the organisation's mission;</li> <li>Significant risks are identified and assessed;</li> <li>Appropriate risk responses are selected that align risks with the organisation's risk appetite; and</li> <li>Relevant risk information is captured and communicated in a timely manner across the organisation, enabling</li> </ul>	<p>Internal audit's role with regard to risk management is set out in the internal audit charter.</p> <p>IA's role with regard to risk management will vary according to the level of risk maturity within the organisation. Where risk management is well established (risk managed or risk enabled) internal audit provide assurance upon:</p> <ul style="list-style-type: none"> <li>The effective implementation of risk management processes in relation to strategic and operational objectives.</li> <li>Reliable identification and assessment of risks with appropriate response.</li> <li>The reporting of risk and control status by management.</li> <li>The level of residual risk in relation to the organisations' risk appetite.</li> </ul>	<p>Charter includes the role of IA with regards to risk management.</p> <p>Review of Risk Management completed in December 2017.</p> <p>Review included the implementation of risk management, identification and assessment of risks, reporting, residual risk and effectiveness of controls.</p>	<p>Consider the use of any self-assessment checklists against IS31000 in future audit reviews of risk management.</p> <p>Consider the use of the risk categories in the Risk Management policy together with resilience and fraud in a new detailed planning document.</p>	2019	<p>Implemented. ISO31000 checklist used.</p> <p>N/A. Used the ISO31000 checklist to produce the planning document. Risk categories are the basis of the Risk Registers, which are used.</p>

	<p>staff, management, and the board to carry out their responsibilities.</p> <p>The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.</p> <p>Risk management processes are monitored through ongoing management activities, separate evaluations, or both.</p> <p>2120.A1 The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations, and information systems regarding the:</p> <ul style="list-style-type: none"> <li>• Achievement of the organisation's strategic objectives,</li> <li>• Reliability and integrity of financial and operational information.</li> <li>• Effectiveness and efficiency of operations and programmes.</li> <li>• Safeguarding of assets; and</li> </ul>	<ul style="list-style-type: none"> <li>• The effectiveness of the controls and other responses to risks.</li> </ul> <p>The IA activity gathers the information to support an assessment of risk management during multiple engagements.</p> <p>The results of these engagements, when viewed together, provide an understanding of the organisation's risk management and its effectiveness. Alternatively, IA may assess risk management processes as one single engagement</p> <p>Where risk management is less developed (risk naïve, aware or defined) internal audit operate in a more advisory capacity to:</p> <ul style="list-style-type: none"> <li>• Report upon the level of risk maturity and scope for improvement.</li> <li>• Support development of risk management framework.</li> <li>• Facilitate identification and assessment of risks.</li> <li>• Coach management in responding to risks.</li> </ul> <p>Coordinate and consolidate reporting:</p> <p>IA refrains from taking full responsibility for risk management, including risk responses.</p>	<p>All audit scopes include reviewing risk management in the area under review.</p> <p>IA is not responsible for risk management.</p>			
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	<ul style="list-style-type: none"> <li>Compliance with laws, regulations, policies procedures and contracts.</li> </ul> <p>2120.A2 The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.</p> <p>2120.C1 During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.</p> <p>2120.C2 Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.</p> <p>2120.C3 When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks</p>	<p>IA carry out individual risk-based engagements to provide assurance on part of the risk management framework, including on the mitigation of individual or groups of risks.</p> <p>IA evaluates the potential occurrence for fraud as part of audit engagements – included within objectives and referred to in communications at the end of the audit engagement.</p>	<p>Risk based internal audit engagements include reviewing risk management within that area.</p> <p>Consideration of fraud not included in all audit scopes. Now added to scoping document.</p> <p>The risk of fraud has been raised with the fraud champions group, to include in risk registers.</p>			
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Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
2200	<p><b>Engagement Planning</b></p> <p>Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.</p>		<p>All included in scoping document.</p> <p>Audit Manual with templates for planning and the Assignment Brief</p>	<p>Review the assignment brief</p>	2019	<p>Implemented. Scoping document reviewed and updated. Research Document introduced to show information used in planning process.</p>
2201	<p><b>Planning Considerations</b></p> <p>In planning the engagement, internal auditors must consider:</p> <ul style="list-style-type: none"> <li>The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.</li> <li>The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.</li> <li>The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.</li> </ul>	<p>Procedure exists within the IA activity that requires internal auditors to research, scope and plan internal audit engagements – assurance and consultancy.</p> <p>Internal auditors document the following as part of their research and discussions with managers</p> <ul style="list-style-type: none"> <li>The nature of the area under review and key areas of change and development</li> <li>The activities that occur and the way performance is monitored.</li> <li>Strategic objectives and the way the area contributes to the organisation's strategy or purpose.</li> </ul>	<p>Procedures exist for research and scoping. All scopes are signed off by a Principal Auditor or Head of Audit.</p> <p>Yes.</p> <p>Yes/no. Performance elements of activity may not be considered.</p> <p>Objectives of the area noted.</p>	<p>Scoping to be further developed after MKInsight fully embedded</p> <p>Could use a more detailed audit planning document</p> <p>Consider the use of the risk categories in the Risk Management policy together with resilience and fraud in a new detailed planning document</p>	2019	<p>Implemented.</p> <p>Implemented Scoping document reviewed and updated. Research Document introduced to show information used in planning process.</p> <p>N/A. Used the ISO31000 checklist to produce the planning document. Risk categories are the basis of the Risk Registers, which are used.</p>

	<ul style="list-style-type: none"> <li>The opportunities for making significant improvements to the activity's governance, risk management, and control processes.</li> </ul> <p>2201.A1 When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.</p> <p>2201.C1 Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.</p>	<ul style="list-style-type: none"> <li>The risks involved and the organisation's chosen responses to those risks.</li> <li>How managers know the responses are effective.</li> <li>Assurances managers give to whom and how often.</li> </ul> <p>The preparation for audit engagements leads to the documentation of objectives that are agreed with senior management and where appropriate clients outside the organisation. Options include:</p> <ul style="list-style-type: none"> <li>Assurance that management assurance is effective and, therefore, reliable.</li> <li>Assurance that specific responses, including controls, are effective in managing given risks.</li> <li>Consultancy to help managers improve the design or implementation of governance processes, risk processes and risk responses, including controls.</li> </ul> <p>Documentation of the objectives and scope of consultancy engagements. This could include engagement letters, terms of reference and any other form of agreement that documents the responsibilities of the internal audit</p>	<p>Risks confirmed to risk registers,</p> <p>Audit Manual with templates for planning and the Assignment Brief</p>			
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Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
2310	<p><b>Identifying Information</b></p> <p>Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.</p> <p><b>Interpretation:</b></p> <p>Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.</p>	<p>activity in a consultancy engagement</p> <p>The internal auditor plans what information they may need, where that information could be obtained from and whether that information is sufficient, reliable, relevant, and timely.</p> <p>The working files/papers for the audit engagement contain information that shows how activities and processes are designed and how they are meant to work.</p> <p>Information is obtained from information systems about the way processing operates – options include reporting tools, exception reports and CAATs.</p> <p>Information also includes observations, interviews and results of audit testing.</p>	<p>Information is gained in order to complete audit testing and support conclusions, and retained in the files.</p> <p>If documented systems / processes are available they will be obtained and used. If not such processes will usually be determined through discussion with auditee and recorded in the working papers.</p> <p>Reports are obtained where applicable. CAATs are not used.</p> <p>Audit evidence stored in electronic files including in the main repository of MK Insight</p> <p>Internal Audit Quality Reviews of completed work</p>	<p><u>CAATS</u></p> <p>Training courses on MS Excel, Google Documents MS Excel CAATS software</p> <p>Consider separate appendices in the Audit Manual on the use of CAATS, The same as for MK Insight and Risk Management</p>	2019	<p>Not implemented. Use of CAATs to be developed.</p> <p>Implemented Manual updated for CAATs, MK Insight and Risk Management.</p>

Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
2410	<p><b>Criteria for Communicating</b></p> <p>Communications must include the engagement's objectives scope and results.</p> <p>2410.A1 Final communication of engagement results must, include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.</p> <p><b>Interpretation:</b></p> <p>Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.</p> <p>2410.A2 Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.</p> <p>2410.A3 When releasing engagement results to parties</p>	<p>There is evidence of appropriate, timely communication with management throughout the audit engagement.</p> <p>This begins with discussions to research and scope an audit, leading to agreement upon objectives.</p> <p>Communication with managers also occurs as the audit engagement proceeds - discussing and analysing information.</p> <p>Close –out meetings that provide the basis for exchange views about conclusions, opinions and possible recommendations for improvement.</p> <p>An overall opinion or conclusion is included within audit communications in line with the stakeholder expectations and the original objectives of the audit engagement.</p> <p>Opinions are given according to the level, scope and detail agreed with senior management</p> <p>Opinions at the engagement level may be ratings, conclusions or other descriptions of the results.</p>	<p>Internal Audit Manual with templates</p> <p>Opening meeting held to agree scope and objectives.</p> <p>Ongoing contact is maintained throughout the audits.</p> <p>Closing meetings held after all audits, including conclusions and opinions and recommendations.</p> <p>Overall opinions are given according to the agreed process and linked to objectives.</p> <p>Standard rating for audit opinions.</p> <p>Reports include areas that are well controlled.</p>	<p>Caveat on the audit report for any client sharing of the report with other parties as part of evidence of compliance for example for a Care Home with the CQC, Academy report with Ofsted.</p> <p>Consider communication being a separate field in the Customer Satisfaction Questionnaire</p>	2019	<p>Not Implemented. Only applies to Academy reports. Standard wording to be added to those reports.</p> <p>Implemented. Added to the questionnaire.</p>

	<p>outside the organisation, the communication must include limitations on distribution and use of the results.</p> <p>2410.C1 Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.</p>	<p>Satisfactory performance is acknowledged in engagement communications.</p> <p>Communications outside the organisation are limited in distribution and use of results.</p> <p>There is evidence of progress and results on consulting engagements that is reasonable to the engagement.</p>	<p>N/A</p> <p>N/A</p> <p>Audit evidence stored in electronic files including in the main repository of MK Insight</p> <p>Internal Audit Quality Reviews of completed work</p>			
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Ref	Standard	Key Conformance Criteria	Conformance	Planned Action	Timescale	Current Position
2420	<p><b>Quality of Communications</b></p> <p>Communications must be accurate, objective, clear, concise, constructive, complete, and timely.</p> <p><b>Interpretation:</b></p> <p>Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune</p>	<p>There is a record of the timeline for the communication of results that spans the completion of the audit engagement through to communication with the board.</p> <p>There is a procedure that ensures discussions with managers between the close of the audit engagement and the delivery of communications are performed promptly.</p> <p>There is evidence to show IA communications are delivered in a timely manner and within the timeframe and level of resource set at the start of the audit engagement.</p> <p>Communications cover the full scope of the audit engagement.</p> <p>The form and style of communications has been discussed and agreed with senior management and the board including the method of communications, format, and any grading of opinions and recommendations.</p>	<p>Record kept of the progress of audits from completion of fieldwork to reporting to Audit Committee. Planned and actual key dates recorded in MKInsight.</p> <p>Closing meetings are held as soon as possible after completion of fieldwork.</p> <p>There are targets for issue and return of draft and final reports, which are followed up if necessary. Actual dates are noted on the files.</p> <p>No. Have tended to be based on good practice / examples / templates from other authorities. Standard report format being produced. Reports show the link between objectives and conclusions.</p>	<p>Annual review of communications at the time of the annual audit planning process as part of continuous reflection and improvement.</p>	<p>March 2019</p>	<p>Implemented. Review of communications as part of this assessment.</p>

	<p>and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.</p>	<p>There is evidence of review and approval of communications prior to their release</p> <p>Communications are clear and concise.</p>	<p>Draft and final reports are reviewed before release.</p> <p>Yes.</p> <p>Records held in MK Insight and documents such as the audit brief, requests for information as part of the fieldwork, meeting requests and reports sent to the client.</p>			
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# **Rotherham Metropolitan Borough Council**

## **Internal Audit Quality Assurance and Improvement Plan 2020**

# 1 Introduction and Background

- 1.1 The professional responsibilities for Internal Auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Chartered Institute of Internal Auditors (CIIA) in the UK and Ireland. Public Sector Internal Audit Standards (PSIAS) are based on the international standards.
- 1.2 The Standards require the Head of Internal Audit to develop a Quality Assurance and Improvement Programme (QAIP), designed to enable an evaluation of Internal Audit's conformance with the Standards. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.
- 1.3 The QAIP must include both internal and external assessments.
- 1.4 Internal assessments must include:
  - Ongoing monitoring of the performance of the Internal Audit activity. This is an integral part of the day-to-day supervision, review and measurement of internal audit. Ongoing monitoring is incorporated into the routine policies and practices used to manage internal audit and uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, Code of Ethics and Standards; and
  - Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices, to evaluate conformance.
- 1.5 External assessments must be completed at least every five years by a qualified, independent assessor or assessment team from outside the organisation and may be either a full external assessment or a self-assessment with independent validation.
- 1.6 Within RMBC the Head of Internal Audit is responsible for the QAIP, which covers all types of Internal Audit activities. Under the QAIP, quality should be assessed at both an individual audit assignment level as well as at a broader level covering the entire internal audit department.
- 1.7 All staff within Internal Audit have responsibility for maintaining quality. The activities outlined in this QAIP involve all staff.
- 1.8 Internal Audit's QAIP is designed to provide reasonable assurance to the various stakeholders of RMBC that it:
  - Performs its work in accordance with its Charter, which is consistent with the PSIAS
  - Operates in an efficient and effective manner
  - Is adding value and continually improving its operations

## 2 External Assessment

- 2.1 At least once every five years, internal audit working practices are subject to external assessment to ensure the continued application of professional standards. This process appraises and expresses an opinion about conformance with PSIAS and includes recommendations for improvement, as appropriate. The assessment is conducted by an independent and suitably qualified person or organisation and the results are reported to the Head of Internal Audit.
- 2.2 Results of external assessments are reported to the Audit Committee at the earliest opportunity following receipt of the report. The report must be accompanied by an action plan in response to significant findings and recommendations contained in the report. Any specific areas identified as requiring further development and/or improvement must be included in an action plan.
- 2.3 At the end of 2015 a wide-ranging external review of Internal Audit was completed by PwC, including an assessment against PSIAS. The results were reported to the Audit Committee in January 2016. 19 recommendations were made for improvement. By November 2016, 10 of the recommendations had been completed, 3 were rated green (certain to be achieved) and 6 were rated amber (in progress / on target).
- 2.4 The results showed non-conformance against PSIAS at that time. One of the recommendations was that an improvement plan should be developed that brings about the necessary improvements to meet the PSIAS requirements. RMBC Internal Audit reviewed their report and considered there were 76 actions to be taken to meet full compliance. By November 2016, 47 of those actions were rated green and 29 were rated amber. The 2016/17 and subsequent Internal Assessments completed and reported every year then gave an up to date position and action plan.
- 2.5 The Audit Committee agreed in November 2019 that an external assessment should take place in 2020 to take the form of an external validation of the internal assessment. The internal assessment has been completed. The external validation was planned for April/May 2020, but will now take place later in the year.

## 3 Internal Assessment

Internal Assessment is made up of both ongoing and periodic reviews

- 3.1 Ongoing quality assurance arrangements
  - 3.1.1 RMBC Internal Audit maintains appropriate ongoing quality assurance arrangements designed to ensure that internal audit work is undertaken in accordance with PSIAS.
  - 3.1.2 Assignment level
    - The maintenance of a detailed audit procedures manual and quality management system to ensure compliance with applicable planning, fieldwork and reporting standards



- The objectives, scope and expected timescales for each audit assignment subject to agreement with the client before detailed work commences
- The results of all audit testing documented using standard working papers
- Documented review of file and working papers by a Principal Auditor to ensure that:
  - All work undertaken complies with the requirements of professional best practice and appropriate audit techniques have been used;
  - Audit files are complete and properly structured;
  - The objectives of the audit have been achieved;
  - Appropriate levels of testing have been carried out;
  - The findings and conclusions are sound and are demonstrably supported by relevant, reliable and sufficient audit evidence
  - The audit report is complete, accurate, objective, clear, concise, constructive and timely
- Supervision of audit assignments
- Regular monitoring of progress of audit assignments
- Draft reports and recommendations are reviewed and approved by the Head of Internal Audit.
- Client View Questionnaires are issued with each draft report to obtain feedback on the performance of the auditor and on how the audit was received.

### 3.1.3 Internal Audit department level

- The Internal Audit annual plan is produced using a risk-based approach
- The audit procedures manual provides a detailed description of the work of the department and the way in which the work should be carried out. This is a point of reference for staff and guides them through the relevant procedures followed within the department
- The Internal Audit Charter provides stakeholders with a formally defined purpose, authority and responsibility for Internal Audit
- Continuous development of the internal audit team to ensure it possesses the necessary capacity, skills and knowledge to successfully deliver the annual audit plan including
  - Job descriptions for each post
  - Annual performance appraisals, to include assessment against audit competencies
  - Individual development plans based on the results of the appraisals
  - Training plans and qualifications for individuals within the team
- Performance against agreed quality targets reported to the Audit Committee at each meeting

### 3.1.4 Integrated Audit Software

The department uses integrated audit software supplied by Pentana (previously Morgan Kai). This enhances and enforces quality assurance at both assignment and departmental level.

### 3.1.5 Reporting to the Audit Committee

At each meeting Internal Audit provides the Audit Committee with a Progress Report summarising the audit activity undertaken since the previous meeting. This includes the following:

- Progress against the annual plan
- A list of reports issued during the period including details of the assurance opinion provided and an outline of the major findings
- Details of investigations completed
- Outstanding audit recommendations
- Performance Indicators for the department

### 3.2 Periodic Reviews

3.2.1 Periodic reviews are completed by an annual self-assessment of conformance with PSIAS completed by the Head of Internal Audit. In previous years a checklist developed by the Chartered Institute of Internal Audit (CIIA) has been used for the self-assessment. This year a checklist developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) has been used. This was agreed in order to provide consistency in external peer reviews.

3.2.2 The results of the self-assessment are used to identify any areas requiring development or improvement. Any specific changes or improvements are included in the annual Improvement Action Plan.

3.2.3 Results are also used to evaluate overall conformance with the PSIAS, the results of which are reported to senior management and the Audit Committee.

3.2.4 An annual self-assessment against the standards was completed in January 2017 and the results reported to the Audit Committee in February 2017. The Internal Audit Service was assessed as partially conforming, an improvement on the previous year. Partial conformance means the department is making good faith efforts to comply with the requirements but falls short of achieving some major objectives. These represent significant opportunities for improvement in effectively applying the standards. The partial conformance was not considered to impact on the effectiveness of the service, and the service complied with the Standards in all significant areas and operates independently and objectively. The assessment resulted in the development of a QAIP to continue the improvement. An Improvement Action Plan was produced to address the individual areas identified as requiring improvement.

3.2.5 The self-assessment for 2018 and 2019 showed general conformance with the standards. However, there were still actions that could be taken to maintain and improve standards.

3.2.6 Another self-assessment has now taken place which included an evaluation of progress against the previous actions, using the CIPFA checklist. The results are shown below. Where an action has been identified against a standard the whole of that standard and the current actions are shown to give context, even if the new suggested action only relates to part of the standard.

- 3.2.7 The new suggested actions will be updated after the conclusion of the external assessment. They will be progressed throughout the year and the results reported back to the committee.

## Quality Assurance and Improvement Plan – 2020

### Actions from assessment February 2020

Ref	Standard	Assessment	Conformance	Planned Action	Timescale	Person Responsible
1210	<p>Having regard to the answers to the other questions in this section and other matters, does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?</p> <p>Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?</p>	<p>Shortfall in IT and the use of CAATs. Currently obtaining advice and assistance with IT Audit.</p>	Partial Conformance	<p>The need for IT Audit being assessed by Salford IA.</p> <p>CAATs to be introduced.</p>	<p>April 2020</p> <p>2020</p>	<p>DW</p> <p>DW</p>
1210	Do internal auditors have sufficient knowledge of key information technology risks and controls?	<p>No specialist IT auditor in the team, but managed as far as possible, e.g. auditor attended seminar on Cyber Security before auditing it; networking with SWYAG IT group. Audit Needs Assessment being completed by Salford IA.</p>	Partial Conformance	The need for IT Audit being assessed by Salford IA	April 2020	DW

Ref	Standard	Assessment	Conformance	Planned Action	Timescale	Person Responsible
1210	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	CAAT's not used.	Not Conforming	CAATs to be introduced	2020	DW
1310	<p>Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?</p> <ul style="list-style-type: none"> <li>■ Is there a set of comprehensive targets which between them encompass all significant internal audit activities?</li> <li>■ Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?</li> <li>■ Does the CAE measure, monitor and report on progress against these targets?</li> </ul> <p>Does ongoing performance monitoring include obtaining stakeholder feedback?</p>	<p>Targets in place for time taken to produce reports, productive time, client satisfaction surveys, time taken to complete audits. Agreed with AC and SD and included in Service Plan. Monitored and reported to AC.</p>	General Conformance	Stakeholder feedback on performance to be obtained.	2020	DW

Ref	Standard	Assessment	Conformance	Planned Action	Timescale	Person Responsible
2110	<p>Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes for:</p> <ul style="list-style-type: none"> <li>■ Making strategic and operational decisions?</li> <li>■ Overseeing risk management and control?</li> <li>■ Promoting appropriate ethics and values within the organisation?</li> <li>■ Ensuring effective organisational performance management and accountability?</li> <li>■ Communicating risk and control information to appropriate areas of the organisation?</li> </ul> <p>Coordinating the activities of and communicating information among the board, external and internal auditors and management?</p>	<p>Governance processes included in all audits. Review of sub-scheme of delegation completed in the year. Risk Management included in all audits, and specific review in 2019. IA produces and administers the Anti-Fraud and Corruption Strategy and Policy. The HIA is one of the whistleblowing officers, Performance management included in audits, specific review in 2019. Communication not reviewed.</p>	Partial Conformance	Audit plan to include review of Risk Management	2020	DW

<b>Ref</b>	<b>Standard</b>	<b>Assessment</b>	<b>Conformance</b>	<b>Planned Action</b>	<b>Timescale</b>	<b>Person Responsible</b>
2410	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	Academies only, for use within the Academy.	General Conformance	Report to include standard paragraph	2020	DW

**Committee Name and Date of Committee Meeting**

Audit Committee – 23 June 2020

**Report Title**

Internal Audit Annual Report 2019-20.

**Is this a Key Decision and has it been included on the Forward Plan?**

No

**Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director of Finance and Customer Services

**Report Author(s)**

David Webster, Head of Internal Audit  
01709 823282 or david.webster@rotherham.gov.uk

**Ward(s) Affected**

Borough-Wide

**Report Summary**

This report provides information on the role of Internal Audit; the work completed during 2019-20 and highlights the key issues that have arisen from it. It provides the overall opinion of the Head of Internal Audit on the adequacy of the Council's control environment, risk management and governance. It also provides information regarding the performance of the Internal Audit function during 2019-20.

Based upon internal audit work undertaken and taking into account other internal and external assurance processes it has been possible to complete an assessment of the Council's overall control environment. In the opinion of the Head of Internal Audit, Rotherham Metropolitan Borough Council had overall an adequate and effective framework of governance, risk management and control during 2019-20. However, at the end of the year the effect of the response to Covid-19 may have impacted on that adequacy and effectiveness.

**Recommendations**

The Audit Committee is asked to:

1. Note the Internal Audit work undertaken during the financial year 2019/20 and the key issues that have arisen from it.
2. Note the overall opinion of the Head of Internal Audit.
3. Note the information contained regarding the performance of Internal Audit during 2019/20.



**List of Appendices Included**

Appendix 1 Internal Audit Annual Report 2019-20.

**Background Papers**

UK Public Sector Internal Audit Standards.

Local Government Application Note.

Accounts and Audit (England) Regulations 2015.

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No.

**Council Approval Required**

No

**Exempt from the Press and Public**

No

## **Internal Audit Annual Report 2019-20.**

### **1. Background**

- 1.1 Internal Audit produced a risk based Annual Audit Plan in accordance with the UK Public Sector Internal Audit Standards (PSIAS). This was received by the Audit Committee at its meeting in March 2019. The Plan was regularly reviewed and monitored during the year so that it provided sufficient coverage of the key risks facing the Council.
- 1.2 During the year the Audit Committee received periodic updates on the work of Internal Audit and a summary of the key issues that arose. This annual report is a final summary of Internal Audit activity.
- 1.3 The report is attached at **Appendix 1** and includes the following information:
  - Legislative requirements and Professional Standards
  - The Head of Internal Audit's annual opinion on the control framework, risk management and governance
  - Resources and audit coverage during the year
  - Summary of audit work undertaken during 2019/20, including both planned and responsive / investigatory work
  - Summary of other evidence taken into account for control environment opinion
  - Summary of audit opinions and recommendations made
  - Internal Audit performance indicators

### **2. Key Issues**

- 2.1 The Head of Internal Audit's opinion is that there was overall an adequate and effective framework of governance, risk management and control during the majority of the year.
- 2.2 The emergency measures implemented in response to Covid-19 at the end of the year and into 2020/21 have resulted in changes to procedures and control arrangements. It is not yet possible to quantify the additional risk arising from these measures or the overall impact on the framework of governance, risk management and control.
- 2.3 We gave an opinion of Partial Assurance in ten areas subject to audit. We did not issue any No Assurance audit opinions during the year.
- 2.4 We can confirm that action plans have been agreed with management in respect of all final audit reports issued.
- 2.5 There was a substantial level of sickness absence within the Internal Audit team during 2019-20 with 100 days sickness being recorded, mostly in the last four months. In addition, towards the end of March most of the audit team was supporting the Finance department in processing applications for Business Support Grants. However, resource levels provided sufficient capacity to provide an adequate level of assurance, and sufficient work was completed to enable the Head of Internal Audit to provide his overall opinion.

- 2.6 Public Sector Internal Audit Standards (PSIAS) require that an assessment of the Internal Audit function must be undertaken annually. The internal assessment in February 2020 showed general conformance with the standards, which matched the assessment the previous year. The planned external assessment had to be postponed until 2020-21 because of Covid-19 and the lockdown. The most recent external assessment in late 2015 had shown non-conformance.
- 2.7 A Quality Assurance and Improvement Programme (QAIP) was put into place during 2019 with the results intended to be reported to the Audit Committee in March 2020 but now reported to this committee. This shows 18 of the 26 actions had been completed, with 4 considered not applicable. An updated QAIP based on the internal assessment has been produced to maintain and increase the level of conformance within the team. This has 7 recommendations and suggestions which will be actioned and monitored during 2020.

### **3. Options considered and recommended proposal**

- 3.1 This report is presented to enable the Audit Committee to fulfil its responsibility for overseeing the work of Internal Audit. It provides an annual summary of Internal Audit work completed and the key issues arising from it and the overall opinion of the Head of Internal Audit on the adequacy of the Council's control environment. It also provides information about the performance of the Internal Audit function during the year.

### **4. Consultation on Proposal**

- 4.1 All Internal Audit reports referred to in this report have been discussed and agreed with the appropriate Service Manager and Assistant Director, and have also been issued formally to the relevant Strategic Director. Where an opinion of partial or no assurance has been given, the report was also sent to the Chief Executive.

### **5. Timetable and Accountability for Implementing this Decision**

- 5.1 The Audit Committee is asked to receive this report at its 23<sup>rd</sup> June 2020 meeting.

### **6. Financial and Procurement Advice and Implications**

- 6.1 There are no direct financial or procurement implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Finance and Customer Services Directorate.

### **7. Legal Advice and Implications**

7.1 The provision of Internal Audit is a statutory requirement for all local authorities that is set out in the Accounts and Audit (England) Regulations 2015. These state: *“each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

7.2 Internal Audit also has a role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are: *“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”*

**8. Human Resources Advice and Implications**

8.1 There are no direct Human Resources implications arising from this report.

**9. Implications for Children and Young People and Vulnerable Adults**

9.1 This document constitutes a report of progress against delivery of the Internal Audit Plan 2019/20. A significant proportion of the Plan was devoted to the examination of risks facing Children and Young People’s Services and Adult Social Care.

**10. Equalities and Human Rights Advice and Implications**

10.1 There are no direct Equalities and Human Rights Implications arising from this report.

**11. Implications for Partners**

11.1 Internal Audit is an integral part of the Council’s Governance Framework, which is wholly related to the achievement of the Council’s objectives, including those set out in the Corporate Improvement Plan and Children’s Services Improvement Plan.

**12. Risks and Mitigation**

12.1 The following risks have been identified:

Risk	Impact	Likelihood	Mitigation
Not having/failing to deliver a risk-based Plan. Audit Plan does not reflect current risks/threats to Council. Unforeseen demands upon audit resources, e.g. increase in frauds/investigations and/or requests from management (responsive work). Insufficient	4	4	Risk-based approach to audit planning, including consultation with management. Robust task/time management process. Audit Plan kept under review to ensure it reflects key risks across Council. Half-yearly meetings with all Directorate management teams to ensure plan is up to date. Progress reports provided to Audit Committee.

resources to complete work to support the annual opinion.  Risk increased due to allocation of staff to operational work due to the response to Covid-19			Review content of Audit Plan quarterly to ensure it reflects key risks across Council. Resources monitored to ensure sufficient to complete the plan.  Plan for 2020/21 to be revised to account for fewer resources and to include consideration of changes to procedures.
Management introduce new systems / processes with inadequate controls. May have happened in the response to Covid-19	4	5	Contact with SLT / DLT's over current developments. Requested information on the changes in order to consider them for review. Consultation with DLT's and SLT. Promote IA in SLT and DLTs. Review of projects in Customer Services and Efficiency Programme. Review changes to systems for possible inclusion in plan.
Audit testing may not reflect current risks. Major systems changes occur without IA awareness, increasing risk. Scope of our work does not take account of this. Unforeseen demands upon audit resources, e.g. increase in frauds/investigations and/or requests from management (responsive work). Has happened in the response to Covid-19	4	5	Risk-based approach to audit planning. Robust task/time management process. Progress reports to Audit Cttee. Complete audits of corporate and directorate financial systems. Review changes to systems for possible inclusion in plan

**13. Accountable Officer(s)**

David Webster, Head of Internal Audit

Report Author: David Webster, Head of Internal Audit  
David Webster, Head of Internal Audit

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This report is published on the Council's [website](#).



# **Rotherham Metropolitan Borough Council**

## **Internal Audit Annual Report 2019/20**

# 1 Introduction

## 1.1 Objectives of the Report.

The objectives of this report are:

- To provide a summary of the Internal Audit work undertaken during the financial year 2019/20 and the key issues that have arisen from it.
- To present the opinion of the Head of Internal Audit on the adequacy and effectiveness of the Council's control environment, risk management and governance arrangements, which supports the Council's Annual Governance Statement (AGS).
- To provide information regarding the performance of the Internal Audit function during the 2019/20 year.

This report is presented to the Audit Committee to enable the Committee to fulfil its responsibility for overseeing the work of Internal Audit.

## 1.2 Legislation Surrounding Internal Audit.

The provision of Internal Audit is a statutory requirement for all local authorities that for the period under consideration is set out in the Accounts and Audit (England) Regulations 2015. These state:

*“each principal authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

Internal Audit also has an important role in helping the Council to fulfil its responsibilities under s.151 of the Local Government Act 1972, which are that:

*“each local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.*

## 1.3 Professional Standards

The professional responsibilities for Internal Auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Chartered Institute of Internal Auditors (CIIA) in the UK and Ireland. Public Sector Internal Audit Standards (PSIAS) are based on the international standards.

The Standards require the Head of Internal Audit to develop a Quality Assurance and Improvement Programme (QAIP), designed to enable an evaluation of Internal Audit's conformance with the Standards. The QAIP must include both internal and external assessments. External assessments must be completed at least every five years. Internal assessments must include:

- Ongoing monitoring of the performance of the Internal Audit activity; and
- Periodic self-assessments

A self-assessment against the standards was completed in January 2019 with the results reported to the Audit Committee in January 2019. The Internal Audit Service was assessed as generally conforming to the Standards. The assessment resulted in the development of a QAIP for 2019. During 2019, 18 of the 26 actions were completed, with another 4 considered to be not applicable. Another self-assessment was completed in February 2020. The self-assessment showed that general conformance with the standards had been maintained. An updated QAIP was then produced to continue the improvement during 2020. This will be implemented and monitored during 2020.

The CIIA define General Conformance as follows.

**Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

It was intended that the internal self-assessment would be validated by an external peer review, however this had to be postponed due to the impact of Covid-19. It is now planned to take place later in 2020. This does not affect compliance with the requirement to have an external assessment at least every five years, as the previous external assessment was completed at the end of 2015.

Ongoing monitoring of performance is in place. The quality of audit work is ensured by the use of an audit manual, ongoing supervision and management of staff and the review of all audit work. Performance targets are set and actual performance reported to each Audit Committee meeting.

#### **1.4 The Definition and Role of Internal Audit**

The definition of Internal Auditing in PSIAS is as follows:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.



The role and responsibilities of the Rotherham MBC Internal Audit Service are outlined in the Internal Audit Charter which was revised during the year and approved by the Audit Committee. It also specifies the department's independence, authority, scope of work and reporting arrangements. All audit work is carried out in accordance with the contents of the Charter.

The role of Internal Audit is to provide an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the framework of internal control, risk management and governance. Internal Audit is therefore a key part of the RMBC assurance cycle and one of the sources of assurance available to the Council and Audit Committee, which assists the Council to prepare the Annual Governance Statement.

In giving the opinion on the framework of internal control, risk management and governance, it should be noted that assurance can never be absolute. The matters raised in this report are only those which came to our attention during our Internal Audit work and are not necessarily a comprehensive statement of all weaknesses that exist, or of all the improvements that may be required.

There have been no limitations made on the scope of Internal Audit coverage within the year.

Towards the end of the year the team supported the Finance department in processing applications for Business Support Grants as a result of Covid-19. That support is ongoing. Whilst working operationally is contrary to the Charter, the work is in one small area of the Authority and does not affect the overall independence of the department. One member of the team has not been involved in the support and will be available to audit the operation in 2020/21.

## **2 Internal Audit Assurance for 2019/20**

### **2.1 Internal Audit Opinion**

For the year ending 31 March 2020, based on the work we have undertaken, my opinion is that Rotherham Metropolitan Borough Council had overall an adequate and effective framework of governance, risk management and control.

### **2.2 Post Year End**

The opinion given above is based on internal audit work undertaken and completed prior to emergency measures being implemented in response to Covid-19 at the end of the year and into 2020/21. These emergency measures have resulted in changes to procedures and control arrangements. It is not yet possible to quantify the additional risk arising from these measures or the overall impact on the framework of governance, risk management and control.

### **2.3 Scope of the opinion**

In arriving at that opinion, I have taken into account

- The results of all internal audits undertaken during the year (see Appendix A for a summary of audits)
- The results of follow up action taken in respect of audits from previous years

- The appropriateness of the proposed action by management to address control weaknesses and consequent risks
- Matters arising from previous reports or other assurance providers to the Audit Committee and/or the Council
- No limitations having been placed on the scope of internal audit
- No resource constraints having been imposed on us which may have impacted on our ability to meet the full audit needs of the Council; and
- Where weaknesses have been identified, the action plans in place to address those weaknesses.

## 2.4 The basis of the opinion

In reaching this opinion the following factors were taken into particular consideration:-

### **Governance**

The council's governance framework comprises a range of policies, procedures and processes. At the highest level this includes the Council Plan, which is monitored and reported on regularly. It is supported by a range of policies and strategies to ensure that governance is applied throughout the Council. During the year there was a review of Schemes of Delegation. In addition, many of the other audits undertaken touched on the implementation of the policies and strategies.

A Corporate Governance Group operated during the year, chaired by the Strategic Director Finance and Customer Services and comprising the Corporate Risk Manager and the Head of Internal Audit. The group produced the annual review of the RMBC Code of Corporate Governance based on the seven principals from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) guidance on 'delivering good governance', published in 2016. This was updated and presented to the Audit Committee in November 2019.

The group has the following roles:

- Have oversight of the Code of Corporate Governance, including its implementation, review and revision on at least an annual basis
- Coordinate the production of the Annual Governance Statement and the assurances needed to underpin it
- Review the progress being made to address the issues reported in the previous year's Annual Governance Statement
- Ensure that recommendations from external bodies are appropriately followed up and reported to the Audit Committee
- Be responsible for responding to any ad hoc governance issues as required.

The group has prepared and drafted the Annual Governance Statement. To do so the group issued corporate governance self-assessment questionnaires to Assistant Directors and asked for Statements of Assurance from Strategic Directors and Statutory Officers. This process provided an opportunity for senior officers to consider the effectiveness of governance arrangements. The Statement explains how Rotherham MBC complies with its own Code of Corporate Governance, in line with the seven principles from CIPFA/SOLACE.

## **Risk Management**

Risk management has been developed and improved throughout the year. There is a hierarchy of risk registers dealing with strategic and operational risks at SLT, DLT and service level. These are regularly reviewed, discussed and amended to ensure they remain up to date. Risks are escalated to strategic level as necessary. Risk management training continued to be delivered to Directors and managers during the year. The Audit Committee reviewed the strategic risk register in July 2019 and February 2020, and Directorate risk registers on a rolling basis throughout the year.

## **Internal Control**

Our opinion on the Council's control environment is based on our assessment of whether the controls in place in the services and functions subject to audit support the achievement of the Council's objectives as set out in the 2019/20 Annual Audit Plan and the individual audit reports issued.

Audits were carried out in all areas of the Council during the year. The overall level of control found in audits was good. No area stood out as being worse than the others. 77% of audits where an assurance level was given resulted in a Substantial or Reasonable assurance level, and no audits resulted in a No Assurance opinion. During 2019/20, 227 recommendations were made to improve the internal control, risk management and governance arrangements across the Council. Of these, 11 were in the highest category (\*\*\*)

A comparison with the previous year shows an overall increase in the assurance levels. In 2018/19, 68% of audits resulted in a Substantial or Reasonable opinion and there were 3 reviews resulting in a No Assurance opinion. During 2018/19, 164 recommendations were made. Of these, 11 were in the highest category (\*\*\*)

The increase in recommendations this year has been in the lowest category (\*)

Summary results are given in Appendix A together with definitions of the assurance levels and recommendation categories.

## **2.5 Resources**

Throughout the year the audit team has been almost fully staffed, with an actual staffing of 7.67 fte against an establishment of 8 fte. The difference arises because one member of the team works four days a week and another only works during term time. This level of staffing was accounted for in the Internal Audit Plan agreed in March 2019.

It is the opinion of the Head of Internal Audit that resource levels throughout the year provided sufficient capacity to provide an adequate level of assurance to the Audit Committee and the Strategic Director of Finance and Customer Services.

As a result of careful management of our resources and significant effort by a very small team, sufficient work was completed during 2019/20 to enable the Head of Internal Audit to provide his overall opinion.

## 2.6 Revisions to the Audit Plan

In accordance with PSIAS, a detailed review of the Audit Plan was regularly undertaken. In particular a review was undertaken at the half-year to arrive at a revised plan. The factors taken into account as part of this review were as follows:

- The imperative to deliver a balanced programme of work that would inform Internal Audit's annual opinion on the overall adequacy of the Council's control environment;
- Any changes to our risk assessment of specific services, functions or systems during the year;

The changes arising from this review were presented to the Audit Committee in November 2019. Any further changes were presented to the Audit Committee as they arose.

At the end of the financial year there is always a small proportion of the plan that remains to be completed. On this occasion resources were not available after the year end as the majority of the team was allocated to operational work. The remaining work was therefore considered and decisions taken on each outstanding project to either complete it, move it to the 2020/21 plan or cancel it.

## 2.7 Level of Audit Coverage during the year

The number of audit days spent in each area compared to the original and revised plan is given in the table below.

Audit Area	Original Plan Days	Revised Plan Days	Actual Days
Corporate	55	55	50
Assistant Chief Executive	135	115	165
Adult Care and Housing	110	105	99
Children and Young People Services	185	185	137
Finance and Customer Services	185	145	151
Regeneration and Environment	110	90	134
Investigations and Advice / Consultancy	250	250	208
Contingency	40	25	
Anti-Fraud	30	30	14
Grants	50	50	52
Operational work	0	0	26
<b>Total</b>	<b>1150</b>	<b>1050</b>	<b>1036</b>

The plan is produced after taking into account estimated unproductive time. There was an unusual amount of sickness during the year, amounting to 100 days.

Towards the end of the year 26 days were spent on operational work in support of the response to Covid-19.

The plan is always flexible and subject to change during the year. The number of days planned for audits at the start of the year is reviewed when the audit is scoped in detail and is also subject to change depending on the findings.

The original plan showed 67 audits to be completed in 1150 days. After a mid-year review this was changed in September 2019 to 56 audits in 1050 days. There is always a time lag in terms of the dates of audits, with the audit plan for any year not being completed at the end of March but in April/May. Additions and deferrals also make comparison of actual work completed against the plan more difficult, and some investigation work results in reports with recommendations to correct weaknesses. However, within 2019/20, as can be seen in Appendix A, 44 final reports were issued, plus 10 investigation reports. In addition, at year end there were another 5 audit reviews that had been completed, with the reports in draft form. In overall terms, this shows that the plan was substantially achieved.

## **2.8 Summary of Findings from Audit Reviews.**

Internal Audit provides an opinion on the control environment for all systems, services or functions which are subject to audit review. These are taken into account when forming our overall annual opinion on the Council's control environment. All final audit reports are issued to the appropriate Strategic Director, Assistant Director and Service Manager. In addition, where an opinion of partial or no assurance is given, the final report is also sent for information to the Chief Executive.

## **2.9 Management Response to Audit Reports.**

After reports are finalised Internal Audit subsequently seeks assurance that agreed actions emanating from audit work have actually been implemented. As a minimum this involves the manager responsible updating automated audit software with an assurance that agreed actions have been implemented or, where they have not, appropriate progress is being made. Where fundamental weaknesses in internal control arrangements have been identified, a more detailed follow up piece of work is undertaken.

All audit recommendations are tracked automatically. A report on aged outstanding actions is presented to the Audit Committee at each meeting. This has proved difficult to clear. At the start of the year there were 49 overdue outstanding actions. During the year this reduced to as little as 19, but by the end of the year had risen to 46. Meetings have taken place with all DLTs and the frequency and timing of reminders have been changed towards the end of the year to reduce the number of overdue actions.

## **2.10 Reporting to the Senior Leadership Team**

SLT receive a summary report based on the Progress Reports presented to the Audit Committee, showing progress against the plan, reports issued and outstanding recommendations.

## **2.11 Investigations and Advisory/Consultancy work**

During the year 161 days were spent on investigations. 10 were completed during the year with 1 ongoing. There was no pattern to the subjects of the investigations, and none were significant in terms of the governance of the Council. A further 47 days were spent on Advisory work. This includes work that does not result in an audit report but adds value to the Council by contributing to working groups or providing advice.

## **2.12 Anti-Fraud work**

During the year the Head of Internal Audit was designated as one of the three Whistleblowing Officers and contributed to the update of the whistleblowing Policy.

The department completed the following:

- The Anti-Fraud and Corruption Policy and strategy were updated and presented to the Audit Committee in November 2019. They were subsequently entered onto the Intranet.
- Continued to work on the National Fraud Initiative to identify errors and fraud.

## **2.13 Grants**

During the year the department completed reviews in accordance with the grant funding body requirements for the following grants.

- Troubled Families
- Local Transport Capital Block Funding
- Disabled Facilities Grant
- Community Coordinator
- NPM Scheme – College Road
- Bus Service Operators

All were found to be accurately compiled and in accordance with the grant criteria.

## **2.14 Summary of Other Evidence taken into Account for Control Environment Opinion.**

In forming our opinion, we also take into account the findings from external reviews of the Council's activities. The Corporate Risk Manager presents a six-monthly report that details recent and current external audits and inspections, including the details of arrangements that are in place regarding the accountability and governance for implementing recommendations arising from these. Reports were submitted to Audit Committee in June and November 2019.

## **2.15 External work**

During the period Internal Audit provided audit services on a fee earning basis to two academies. Since academies are separate legal entities to the Council, this work does not have any impact on our overall opinion of the Council's control environment. The findings, recommendations and conclusions arising from these

engagements are therefore not reported to the RMBC Audit Committee.

## 2.16 Internal Audit Performance Indicators

Our performance against a number of key indicators is summarised below:

<b>Performance Indicator</b>	<b>2018/19 Actual</b>	<b>2019/20 Target</b>	<b>2019/20 Actual</b>
Draft reports issued within 15 days of field work being completed.	97%	90%	84%
Chargeable Time / Total Time.	72%	72%	63%
Audits completed within planned time.	89%	90%	95%
Client Satisfaction Survey.	100%	100%	98%

Performance has been affected by long term sickness between December 2019 and March 2020.

**Analysis Of Internal Audit Opinions and Recommendations Made in 2019/20**

The table below shows a summary of the audit opinions and recommendations that have arisen from audit work completed during the period.

<i>Audit Area</i>	<i>Audit Opinions</i>						<i>Number of Recommendations Made</i>			
	<i>Substantial Assurance</i>	<i>Reasonable Assurance</i>	<i>Partial Assurance</i>	<i>No Assurance</i>	<i>No opinion given</i>	<i>Total</i>	<i>red</i>	<i>amber</i>	<i>green</i>	<i>Total</i>
Corporate	1	0	1	0	0	2	0	3	0	3
Assistant Chief Executive	1	6	3	0	0	10	1	31	22	54
Adult Care Housing and Public Health	1	5	2	0	0	8	2	14	27	43
Children and Young Peoples Services	2	2	2	0	0	6	3	9	21	33
Finance and Customer Services	4	5	1	0	0	10	1	12	31	41
Regeneration and Environment	4	3	1	1	0	8	1	4	24	29
Investigations					10	10				
<b>Total</b>	<b>13</b>	<b>21</b>	<b>10</b>	<b>0</b>	<b>10</b>	<b>54</b>	<b>11</b>	<b>87</b>	<b>132</b>	<b>227</b>



Rating	Definition
Substantial Assurance	<p>Substantial assurance that the system of internal control is designed to achieve the service's objectives and this minimises risk.</p> <p>The controls tested are being consistently and effectively applied. Recommendations, if any, are of an advisory nature (1 star) to further strengthen control arrangements.</p>
Reasonable Assurance	<p>Reasonable assurance that the system of internal control is designed to achieve the service's objectives and minimise risk. However, some weaknesses in the design or inconsistent application of controls put the achievement of some objectives at risk.</p> <p>There are some areas where controls are not consistently and effectively applied and / or are not sufficiently developed. Recommendations are no greater than medium (2 star) priority.</p>
Partial Assurance	<p>Partial assurance where weaknesses in the design or application of controls put the achievement of the service's objectives at risk in a significant proportion of the areas reviewed.</p> <p>There are significant numbers of areas where controls are not consistently and effectively applied and / or are not sufficiently developed. Recommendations may include high priority (3 star) and medium priority (2 star) matters.</p>
No Assurance	<p>Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes service objectives to an unacceptable level of risk.</p> <p>There is significant non-compliance with basic controls which leaves the system open to error and / or abuse. Recommendations will include high priority (3 star) matters and may also include medium priority (2 star) matters.</p>

Recommendation categories

Red Fundamental (Action considered necessary to avoid exposure to high risk)

Amber Significant (Action considered necessary to avoid exposure to a significant risk)

Green Merits Attention (Action desirable to enhance control or value for money)

**Committee Name and Date of Committee Meeting:**

Audit Committee - 26<sup>th</sup> May 2020

**Report Title:**

Audit Committee Forward Work Plan

**Is this a Key Decision and has it been included on the Forward Plan?**

No

**Strategic Director Approving Submission of the Report:**

Judith Badger, Strategic Director of Finance and Customer Services

**Report Author(s):**

David Webster (Head of Internal Audit).

Tel: 01709 823282 Email david.webster@rotherham.gov.uk

**Ward(s) Affected:**

Borough-Wide.

**Executive Summary:**

The report presents to the Audit Committee a forward work plan covering the next year. The plan shows how the agenda items relate to the objectives of the Committee. It is presented for review and amendment as necessary.

**Recommendation:**

The Audit Committee is asked to review the Forward Work Plan and suggest any amendments to it.

**List of Appendices Included**

Audit Committee Forward Work Plan.

**Background Papers**

Audit Committee Terms of Reference – Constitution, Appendix 9 Responsibilities and Functions, Section 5 Terms of Reference for Committees, Boards and Panels.

**Consideration by any other Council Committee, Scrutiny or Advisory Panel:**

No

**Council Approval Required:**

No

**Exempt from the Press and Public:**

No

## **Audit Committee Forward Work Plan**

### **1. Background**

- 1.1 The Audit Committee's Terms of Reference are published in the Constitution. The attached Forward Work Plan details how the committee meets those Terms of Reference.

### **2. Key Issues**

- 2.1 Local Government Audit Committees should comply with the Chartered Institute of Public Finance and Accountancy's Position Statement and Practical Guidance for Audit Committees. The Terms of Reference for the Audit Committee are designed to ensure the Committee meets the CIPFA standards.
- 2.2 The forward work plan is designed to ensure that the key Audit Committee responsibilities are fulfilled.
- 2.3 The Chair of the Audit Committee has asked for a report from Procurement, which has not yet been scheduled.

### **3. Options considered and recommended proposal**

- 3.1 The work plan for the Audit Committee is a helpful guiding document for the Committee itself and other stakeholders with an interest in the Committee's activities. The work plan for the coming year by date is presented to each committee meeting for review and amendment.

### **4. Consultation on Proposal**

- 4.1 Relevant officers and the Audit Committee were consulted in producing the work plan.

### **5. Timetable and Accountability for Implementing this Decision**

- 5.1 The Forward Plan comprises a schedule of reports to be presented to the Audit Committee at each of its meetings during the year. Various reports have to be presented at specified meetings in order to comply with statutory requirements (for example relating to the statement of accounts and annual governance statement).

### **6. Financial and Procurement Implications**

- 6.1 There are no financial or procurement issues arising from this report.

### **7. Legal Advice and Implications**

- 7.1 There are no direct legal implications associated with this report.

### **8. Human Resources Advice and Implications**

- 8.1 There are no Human Resources implications arising from the report.

**9. Implications for Children and Young People and Vulnerable Adults**

9.1 The Audit Committee reviews the management of risks across the Council including those relating to Children's and Adult Services. Review of the management of risks helps to ensure the risks are mitigated.

**10. Equalities and Human Rights Advice and Implications**

10.1 There are no direct Equalities or Human Rights implications arising from this report.

**11. Implications for Partners**

11.1 Partners will be able to take assurance on the Control's application of governance controls and management of risks from the work of the Audit Committee.

**12. Risks and Mitigation**

12.1 The Audit Committee aims to comply with standards established by the Chartered Institute of Public Finance and Accountancy (CIPFA). The maintenance of a work plan is consistent with the CIPFA standards. The production of a work plan also helps the Audit Committee to ensure it achieves its terms of reference.

**13. Accountable Officer:**

David Webster, Head of Internal Audit  
01709 823282 – [david.webster@rotherham.gov.uk](mailto:david.webster@rotherham.gov.uk)

Audit Committee Forward Work Plan

Meeting Date	Key Responsibility	Agenda Item	Author
23 June 2020	External Audit	Training External Audit Progress Update	Grant Thornton / Graham Saxton
	Treasury Management	Annual Treasury Management	Graham Saxton
	Governance Risk and Control	Review of Surveillance and use of Regulation of Investigatory Powers	Bal Nahal
	Governance Risk and Control	External Audit and Inspection Recommendations	Simon Dennis
	Governance Risk and Control	Risk Management Annual Report	Simon Dennis
	Internal Audit / Governance Risk and Control	IA Progress Report	David Webster
	Internal Audit	IA Annual Plan	David Webster
	Governance Risk and Control	Risk Management Directorate Presentation – Adult Care and Housing	Anne Marie Lubanski
	Audit Committee Accountability	Audit Committee Forward Plan	David Webster

Meeting Date	Key Responsibility	Agenda Item	Author
18 <sup>th</sup> Aug 2020		Training – Statement of Accounts	
	Financial Reporting	Draft Statement of Accounts	Graham Saxton
	Governance Risk and Control	Draft AGS	Judith Badger
	Governance Risk and Control	Information Governance Annual Report	Paul Vessey
	Governance Risk and Control	Strategic Risk Register	Simon Dennis
	Audit Committee Accountability	Audit Committee Annual Report	David Webster
	Audit Committee Accountability	Audit Committee Forward Work Plan	David Webster
Internal Audit	Private meeting		

Meeting Date	Key Responsibility	Agenda Item	Author
29 September 2020	External Audit	Training External Audit Annual Letter	Grant Thornton / Graham Saxton
	Internal Audit	IA Charter review and update	David Webster
	Internal Audit / Governance Risk and Control	IA Progress Report	David Webster
	Governance Risk and Control	Risk Management Directorate Presentation – Assistant Chief Executive	Assistant Chief Executive
	Governance Risk and Control	Anti-Fraud and Corruption Policy and Strategy review and update	David Webster
	Audit Committee Accountability	Audit Committee Forward Work Plan	David Webster

<b>Meeting Date</b>	<b>Key Responsibility</b>	<b>Agenda Item</b>	<b>Author</b>
24 November 2020	Financial Reporting	Training – Code of Corporate Governance	Graham Saxton
	Governance Risk and Control	Final Statement of Accounts	Judith Badger
	Financial Reporting	Final AGS	Grant Thornton / Graham Saxton
	Governance / Risk and Control	External Audit report on the Accounts	Simon Dennis
	Treasury Management	External Audit and Inspection recommendations	Graham Saxton
	Governance Risk and Control	Mid-Year Report on Treasury Management	Simon Dennis
	Governance Risk and Control	Code of Corporate Governance	Simon Dennis
	Governance Risk and Control	Risk Management Strategy and Policy	Paul Woodcock
	Governance Risk and Control	Risk Management Directorate Presentation – Regeneration and Environment	David Webster
	Internal Audit / Governance Risk and Control	IA Progress Report	Graham Saxton
Financial Reporting	Updates to Financial Procedures	David Webster	
Audit Committee Accountability	Audit Committee Forward Work Plan		



<b>Meeting Date</b>	<b>Key Responsibility</b>	<b>Agenda Item</b>	<b>Author</b>
19 <sup>th</sup> January 2021	Financial Reporting	Training Final Accounts closedown and accounting policies	Graham Saxton
	External Audit	Accounts Audit Plan	Grant Thornton / Graham Saxton
	Governance Risk and Control	Strategic Risk Register	Simon Dennis
	Governance Risk and Control	Risk Management Directorate Presentation – Finance and Customer Services	Judith Badger
	Internal Audit / Governance Risk and Control	IA Progress Report	David Webster
	Audit Committee Accountability	Audit Committee Forward Work Plan	David Webster

Meeting Date	Key Responsibility	Agenda Item	Author
23 <sup>rd</sup> March 2021		Training	
	Internal Audit	IA Strategy and Plan	David Webster
	Internal Audit / Governance Risk and Control	IA Progress Report	David Webster
	External Audit	External Audit Progress Update	Grant Thornton / Graham Saxton
	Governance Risk and Control	Risk Management Directorate Presentation – CYPS	Sally Hodges
	Internal Audit	Public Sector Internal Audit Standards	David Webster
	Internal Audit	Internal Audit Quality Assurance and Improvement Plan	David Webster
	Audit Committee Accountability	Audit Committee Self-Assessment	David Webster
Audit Committee Accountability	Audit Committee Forward Work Plan	David Webster	

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