

ROTHERHAM BOROUGH COUNCIL - REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	5th May 2015
3.	Title:	Internal Audit Annual Report 2014/15
4.	Directorate:	Resources and Transformation

5. **Summary.**

This report provides information on the role of Internal Audit, the work undertaken by the Service during the 2014/15 financial year and the Director of Transformation's overall opinion on the Council's control environment.

Based upon the work undertaken and taking into account the Professor Jay Report, Corporate Governance Inspection and Ofsted Inspection, the Director of Transformation has concluded that the Council's control environment for 2014/15 was inadequate and did not operate satisfactorily during the year.

6. **Recommendation**

The Audit Committee is asked to note the Internal Audit Annual Report for 2014/15, including our opinion that the Council's control environment was inadequate and did not operate satisfactorily during the year

7. Proposals and Details.

It is a requirement of the UK Public Sector Internal Audit Standards (UKPSIAS) that an annual report is produced setting out the work performed by Internal Audit and the opinion of the *Chief Audit Executive* on the Council's internal control environment.

At Rotherham, the Chief Audit Executive is the Director of Transformation (formerly the Director of Audit and Asset Management), who is responsible for ensuring that there is an effective internal audit function. He is supported by the Chief Internal Auditor who is responsible for the operational management of the Internal Audit function.

The annual report is attached at **Appendix 1**. The report describes the body of evidence that has been taken into account in forming our overall opinion on the Council's control environment. It includes the following information:

- The audit planning process
- The basis of the Director of Transformation's audit opinion on the Council's control environment
- A summary of findings from internal audit reviews completed in the year
- A summary of other evidence considered in reaching a control environment opinion.

Headlines from the report include:

- Delivery of our planned work during 2014/15 was hindered by a number of factors, including limiting our work in the Children and Young People Services Directorate because of the Directorate's need to support the Professor Jay review and Ofsted and Corporate Governance Inspections, and a high level of demand for 'responsive' internal audit work following the series of critical reports received by the Council during the year
- Notwithstanding the above, we have carried out sufficient work to enable us to form a view on the Council's control environment
- Our work concluded that the control environment was inadequate in six areas audited during the year;
- We also investigated various allegations of fraud throughout the year, none of which had material implications for our assessment of the Council's control environment
- Based upon the Internal Audit work undertaken, considering the work of the External Auditor, and taking into account the Professor Jay Report, the Corporate Governance Inspection and the Ofsted inspection, **the conclusion of the Director of Transformation is that the Council's control environment for 2014/15 was inadequate and did not operate satisfactorily during the year.**

The Corporate Governance Inspection report stated that the audit function at Rotherham operated 'within acceptable norms' but also raised concerns about the overall approach to audit. We have changed our approach to audit for 2015/16 in response to this and to ensure full compliance with the requirements

of the UK Public Sector Internal Audit Standards. The scale of change will be challenging. We will review the future needs and how existing resources can be used to meet these needs. Where relevant we will invest in training and development and, where necessary, we will commission external specialist support to ensure we can meet our audit responsibilities.

8. Finance.

There are no direct financial implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Resources and Transformation Directorate

9. Risks and Uncertainties.

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

10. Policy and Performance Agenda Implications.

Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives.

11. Background Papers and Consultation.

UK Public Sector Internal Audit Standards
Accounts and Audit Regulations, 2011

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Appendix 1: Internal Audit Annual Report 2014/15



Rotherham Metropolitan Borough Council

Internal Audit Annual Report 2014/15

Resources and Transformation Directorate

Internal Audit Annual Report 2014/15

1. Purpose of the Report.

- 1.1 The purpose of the report is to present the Director of Transformation's overall opinion on the Council's control environment, which supports the Council's Annual Governance Statement (AGS).

2. Introduction.

- 2.1 The UK Public Sector Internal Audit Standards (UKPSIAS) and the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Local Government Application Note require that an annual report is produced by the 'Chief Audit Executive' on the work undertaken by Internal Audit during the year. The 'Chief Audit Executive' is the term used to describe the person responsible for managing the internal audit activity in accordance with the internal audit charter and professional standards. Previous standards referred to the 'Head of Internal Audit'.
- 2.2 At Rotherham, the Chief Audit Executive is the Director of Transformation (formerly the Director of Audit and Asset Management), who is responsible for ensuring that there is an effective internal audit function. He is supported by the Chief Internal Auditor who is responsible for the operational management of the Internal Audit function.
- 2.3 It is not the intention of this report to give detailed information on each of the audits that have been undertaken during the year. These details have been provided in quarterly progress reports to the Audit Committee. This report provides a summary of the work done, the main issues that have arisen and the overall opinion on the Council's control environment.

3. Legislation Surrounding Internal Audit.

- 3.1 The provision of Internal Audit is a statutory requirement for all local authorities that for the year under consideration is set out in the Accounts and Audit (England) Regulations 2011. These state that each local authority:

"must undertake an adequate and effective internal audit of its accounting records and of its system of internal control, in accordance with the proper practices in relation to internal control."

From 1st April 2015, these were replaced by the Accounts and Audit (England) Regulations 2015.

- 3.2 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"

3.3 In order to deliver its functions as determined by statute and professional standards, Internal Audit has unrestricted coverage and access to all employees, records and assets of the Council. Additionally, it has unrestricted access to, and the freedom to report to, the Chief Executive (in Rotherham's case this is now the Commissioner Managing Director); the Other Commissioners appointed by the Secretary of State DCLG; the Responsible Financial Officer, the Monitoring Officer and the Audit Committee. These requirements are set out in the Internal Audit Charter, which has recently been reviewed in line with the UKPSIAS.

4. Audit Planning Process.

4.1 The 2014/15 Audit Plan was produced taking account of the following:

- Analysis of the Council's risk registers
- Examination of revenue and capital budgets
- Cumulative audit knowledge and experience of previous work undertaken
- Review of both Corporate and Service Plan objectives and priorities
- Discussions with Strategic Directors and Directors
- Knowledge of existing management and control environments
- Professional judgement on the risk of fraud or error.

5. Basis of Audit Opinion on the Council's Control Environment.

5.1 Delivery of our planned work during 2014/15 was affected by a number of factors, some of which were exceptional, including:

- Our planned work in 2014/15 within the Children and Young People Services Directorate was hindered by the Directorate's need to support the Professor Jay review and subsequently the Ofsted and Corporate Governance Inspections(CGI).
- Following the publication of the Professor Jay Report and CGI Reports, there was a substantial increase in 'responsive' demand for Internal Audit work i.e. requests for support from the leadership management, such as in the investigation of irregularities.
- Resources available were reduced by virtue of one member of the team being on maternity leave for most of the year and another leaving the Council's employment in July 2014.

5.2 Notwithstanding the above, we have carried out sufficient work to enable us to form a view on the Council's control environment (see 6 below).

5.3 In forming the overall opinion on the control environment, we have taken into account other assessments of the Council's performance and its controls (see 7 below).

6. Summary of Findings from Audit Reviews.

6.1 Internal Audit Opinion

Internal Audit provides an 'opinion' on the control environment for all systems or services which are subject to audit review. These are taken into consideration when forming our overall opinion on the Council's control

environment. An 'inadequate' opinion is given in any area under examination where one or more concerns of a 'fundamental' nature are identified in the area.

6.2. Audit Areas with Inadequate Control Environment

Summary conclusions in all significant audit work undertaken during the year are set out in **Appendix A**. Our work concluded that the control environment was inadequate in six areas listed below.

Directorate / Audit Area	Report to mgt	Summary of Significant Issues
CYPS Contract for School Improvement Activity	15/08/14	The Council and schools had put insufficient arrangements in place to ensure they were receiving value for money from outsourced school improvement work and to effectively manage this work.
CYPS Children's Homes	19/03/15	There were significant weaknesses in the arrangements for administering Children's personal monies and Disability Living Allowance at one of the Council's Children's homes.
CYPS Transport of looked after children	13/03/15	Internal Audit found that there was not a consistent arrangement for the provision of taxis for transporting Looked After Children outside of the Home to School contracts. We have made recommendations to strengthen arrangements, all of which have been accepted by management.
EDS Highways Contracts	14/07/14	Arrangements within EDS Streetpride for verifying non fixed-price contract costs during the currency of a contract and at final account stage were inadequate, exposing the Council to unnecessary financial risk.
EDS Blue Badge Scheme	16/09/14	Assessments carried out on applications for blue badges designed to check the validity of applicants' details did not fully meet with national guidance.
EDS Taxi Licensing	06/03/15	Our work confirmed weaknesses identified in the Corporate Governance Inspection and we made detailed recommendations, which have been actioned by management, to strengthen arrangements.

7.3 In addition to our assurance work, we also investigate allegations of fraud, corruption or other irregularity. Details of significant investigations completed in the year are set out in **Appendix B**. None of these investigations have material implications for our assessment of the Council's control environment.

8. Summary of Other Evidence taken into Account for Control Environment Opinion

7.1 In forming our opinion, we also take into account the findings from external reviews of the Council's activities. The key external reviews that had a material impact on our opinion for 2014/15 are set out below:

Review	Key Conclusions
KPMG LLP (External Auditors to the Council)	KPMG issued an adverse opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (known as the VFM Conclusion). This was reported to the Council's leadership team and Audit Committee in early March 2015.
Professor Jay Report	<p>The Independent Enquiry by Professor Jay highlighted collective failures of political and officer leadership in addressing the crime of child sexual exploitation. It found that the scale of the problem had been underplayed by the Council.</p> <p>The report stated that the child sexual exploitation team struggles to keep pace with the demands of its workload. The report also highlighted that good risk assessment was absent from too many cases in Children's social care and that there was not enough long term support for victims.</p>
OFSTED	<p>This report concluded:</p> <p><i>"there are widespread or serious failures that result in children being harmed or at risk of harm. In the delivery of services for looked after children and care leavers these failures result in the welfare of these children not being safeguarded and promoted. Leaders and managers have not been able to demonstrate sufficient understanding of failures and have been ineffective in prioritising, challenging and making improvements."</i> OFSTED report, 19th November 2014.</p>
Corporate Governance Inspection (CGI)	<p>The CGI report was commissioned by the Secretary of State for DCLG in accordance with s.10 of the Local Government Act 1999. Its main conclusions were as follows:</p> <ul style="list-style-type: none"> • Rotherham Metropolitan Borough Council is not "fit for purpose". • It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. • In particular, it is failing in its duties to protect vulnerable children and young people from harm. • There were past and present failures to accept, understand and combat the issue of Child Sexual Exploitation (CSE), resulting in a lack of support for victims and insufficient action against known perpetrators.

Review	Key Conclusions
	<ul style="list-style-type: none"> • The Council's culture is unhealthy: bullying, sexism, suppression and misplaced 'political correctness' have cemented its failures. • The Council is currently incapable of tackling its weaknesses, without a sustained intervention.

8. **Management Response to Audit Reports.**

- 8.1 Following the completion of audit work, draft reports are sent to the managers to obtain their agreement to the report and commitment to the implementation of recommendations. After agreement, a formal action plan containing agreed actions is issued to the Service Director of the service under review. Internal Audit subsequently seeks assurance from management that recommendations are implemented. There is active follow up of recommendations made following the identification of fundamental weaknesses.
- 8.2 Currently there are no significant issues where responses are giving cause for concern.

9. **Assessment of the Control Environment for Year to 31st March 2015.**

- 9.1 Based upon the audit work undertaken and the external reviews of the Council's arrangements in carrying out its activities it has been possible to produce a summary assessment of the Council's overall control environment.
- 9.2 Taking account of the planned and responsive Internal Audit work undertaken, and in particular the significance of the findings and conclusions from the Professor Jay Report, the Corporate Governance Inspection and the Ofsted inspection, and the External Auditor **the conclusion of the Director of Transformation is that the Council's control environment for 2014/15 was inadequate and did not operate satisfactorily during the year.**

10. **Work for outside bodies**

- 10.1 During the year Internal Audit provided audit services on a fee earning basis to the following academy schools:
- Wingfield Academy
 - Maltby St. Marys's Academy
 - Herringthorpe St. Mary's Academy
 - Dalton Listerdale Academy
 - Anston Greenlands Academy.
- 10.2 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.

11. Corporate Governance Inspection and Impact on Audit Approach 2015/16

- 11.1 The Corporate Governance Inspection report stated that the audit function at Rotherham operated 'within acceptable norms' but highlighted a need to review the overall audit approach. To this end, we have reviewed our approach in planning and formulating our 2015/16 Audit Plan and to ensure full compliance with the requirements of the UK Public Sector Internal Audit Standards (UKPSIAS).
- 11.2 In line with the UKPSIAS, the 2015/16 audit plan will enable Internal Audit to maximise the value and assurance it provides the Council's Commissioners, the leadership team and Audit Committee , while ensuring it fulfils its statutory obligation to review and report on the Council's internal control environment.

Summary of Audit Work Undertaken

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
CHILDREN AND YOUNG PEOPLE SERVICES (CYPS)				
Contract for School Improvement Activity	To assess the monitoring arrangements around a contract with a school company to delivery school improvement activity.	15/08/14	Inadequate	<p>The Council and Schools had put insufficient arrangements in place to manage and assure themselves that they were receiving value for money from the externalised school improvement work.</p> <p>A number of recommendations were made and agreed with CYPS Leadership Team.</p>
Secondary Schools	To assess the robustness of financial administration and governance arrangements.	17/10/14	Adequate	<p>Internal Audit identified weaknesses in one secondary School's budgetary control and governance arrangements, which had resulted in the provision of inaccurate financial information to Governors. The School had also failed on several occasions to fully comply with the competitive procurement requirements of Financial Regulations for Schools in the award of contracts.</p> <p>We have made recommendations to address these issues, all of which have been agreed with the School.</p>
Primary Schools	To assess the robustness of the School's financial administration and governance arrangements.	22/01/15	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
Children's Centres	To assess the adequacy of income collection arrangements at Children's Centres.	23/01/15	Adequate	Arrangements were found to be adequate.
Adoption Allowances	To assess the robustness of arrangements for paying adoption allowances.	Draft report issued	Adequate	Arrangements were found to be adequate.
Children's Homes	To assess the robustness of financial administration arrangements.	19/03/15	Inadequate	There were significant weaknesses in the arrangements for financially administering Children's personal monies and Disability Living Allowance at one of the Council's Children's homes. We have made recommendations to strengthen arrangements, all of which have been accepted by management.
Transport of looked after children	To assess arrangements for dealing with safeguarding concerns.	13/03/15	Inadequate	Internal Audit found that there was not a consistent arrangement for the provision of taxis for transporting Looked After Children outside of the Home to School Transport contracts. We have made recommendations to strengthen arrangements, all of which have been accepted by management.
Children's Social Care Emergency Payments	To assess the robustness of financial administration arrangements.	13/03/15	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
ADULT SOCIAL CARE				
Davies Court Care Home	To assess the robustness of financial administration arrangements.	21/07/14	Adequate	Arrangements were found to be adequate.
Lord Hardy Court Care Home	To assess the robustness of financial administration arrangements.	01/10/14	Adequate	Arrangements were found to be adequate.
Parkhill Lodge Residential Care Home (learning disability)	To assess the robustness of financial administration arrangements.	04/11/14	Adequate	In general, arrangements were found to be adequate. We did, however, identify areas for improving the arrangements, including the process by which clients pay their contributions towards care costs. We made several recommendations, which were agreed by management.
Quarryhill Resource Centre (learning disability)	To assess the robustness of financial administration arrangements.	09/02/15	Adequate	Arrangements were found to be adequate.
ENVIRONMENT AND DEVELOPMENT SERVICES				
Home to School Transport	To assess the arrangements for ensuring the safety of children transported under taxi contracts.	13/03/15	Adequate	This audit identified a need to strengthen arrangements for carrying out spot checks on vehicle maintenance, the use of passenger escorts and provision of specialist equipment on the vehicle to ensure compliance with health and safety requirements. Management has agreed the recommendations made.

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
Integrated Housing Management System	To assess the project risks arising from the implementation of the new Integrated Housing Management System.	Draft report	Inadequate	<p>We have identified significant problems with the implementation of this system, including with specific aspects of its functionality, security and its interface with other Council systems. These have resulted in delays to implementation. Council officers are working with the developer to address these prior to go live.</p> <p>We made several recommendations which were accepted by management.</p>
Grants to the voluntary sector	To assess the robustness of arrangements for making grants to the voluntary sector.	20/01/15	Adequate	We highlighted a need for improvements with regard to the procurement and monitoring of funding made under the Single Infrastructure Grant. Recommendations made to management have been agreed.
Blue Badge Scheme	To assess arrangements to test eligibility for a blue badge.	16/12/14	Inadequate	Assessments carried out on applications for blue badges designed to check the validity of applicants' details did not fully meet with national guidance. A recommendation made by Internal Audit was rejected by management on the grounds of insufficient budget and the fact that this would require significant business process reengineering. We continue to work with management to address the risks will report back to Audit Committee at its next meeting.
Highways Contracts	To assess arrangements for the verification of expenditure on major contracts.	14/07/14	Inadequate	<p>We identified that arrangements for verifying non fixed-price contract costs during the currency of a contract and at final account stage were in need of strengthening.</p> <p>We made recommendations to ensure more robust checks on contract cost certificates are implemented moving forward, and these have been agreed.</p>

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
Taxi Licensing	To ensure that necessary checks are performed before issuing licences for drivers, vehicles and operators.	Draft report	Inadequate	Our work confirmed weaknesses identified in the Corporate Governance Inspection and we made detailed recommendations, which have been or are being actioned by management, to strengthen arrangements.
Parks and Green Spaces	To assess arrangements for the security of cash income.	25/11/14	Adequate	Arrangements were found to be adequate.
Customer Service Centres	To assess arrangements for income collection at customer service centres.	02/05/14	Adequate	Arrangements were found to be adequate.
Cashiers Service	To assess arrangements for income collection by the Cashiers Service.	25/07/14	Adequate	Arrangements were found to be adequate.
Maintenance of former landfill sites	To assess procurement arrangements for contracts relating to the maintenance of former landfill sites.	09/09/14	Adequate	Using comparative information, Internal Audit examined the Council's contractual arrangements for the maintenance of its former landfill sites and found the work had not been subjected to competitive tender for a number of years. We recommended to management that the contract should be subject to a formal competitive procurement process. The Corporate Procurement Team has initiated such an approach, with a view to awarding a new contract, to commence in early 2015/16.
Commercial Property Portfolio	To assess the arrangements for the management of the Council's non-operational property portfolio.	17/06/14	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
Hire of Plant and Equipment	To assess the Council's arrangements for making payments under the hire of plant and equipment contracts.	17/09/14	Adequate	Arrangements were found to be adequate.
Business Centres	To assess the adequacy of financial administration arrangements at Business Centres.	10/10/14	Adequate	Arrangements were found to be adequate.
Cultural Services	To assess the adequacy of financial administration arrangements within Cultural Services, focusing specifically on the Museum and the Civic Theatre.	15/15/14	Adequate	Arrangements were found to be adequate.e
Country Parks	To assess the adequacy of financial administration arrangements at country parks.	01/10/14	Adequate	This audit highlighted weaknesses in controls over cash income, particularly with regard to car parking charges, at Rother Valley Country Park. We have made recommendations to strengthen arrangements, all of which have been accepted by management.
Carbon Reduction Commitment	To establish if the RMBC "Evidence Pack" complies with guidance as set out in the CRC Energy Efficiency Scheme guidance as published by the Environment Agency.	13/01/15	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
Markets	To assess the arrangements for income collection by the Markets Service.	21/11/14	Adequate	Arrangements were found to be adequate.
BDaR Waste PFI	To carry out internal audit work as required by the external auditor, BDO.	10/06/14	Adequate	Arrangements were found to be adequate.
RESOURCES				
Debtors	Ensure that the Council has proper arrangements for the collection of debt.	24/02/15	Adequate	Arrangements were found to be adequate.
Payroll	Ensure that the Council has proper arrangements for the payment of wages, salaries and expenses to employees.	27/03/15	Adequate	Arrangements were found to be adequate.
NNDR	Ensure that the Council has proper arrangements for the collection of national non domestic rates.	Draft report	Adequate	Arrangements were found to be adequate.
Benefits	Ensure that the Council has proper arrangements	Draft report	Adequate	Arrangements were found to be adequate.

Audit Area	Assurance Objective	Final Report to mgt	Overall Audit Opinion	Summary of Significant Issues
	for the administration of Housing Benefits and Council Tax Support.			
GRANTS				
Troubled Families Grant	Audit in accordance with grant funding body requirements.	20/02/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
16-19 Bursary Grant	Audit in accordance with grant funding body requirements.	31/10/14	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Rotherham Active Ability	Audit in accordance with grant funding body requirements.	13/05/14	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Cluj Napoca	Audit in accordance with grant funding body requirements.	08/12/14	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Flood Recovery Scheme	Audit in accordance with grant funding body requirements.	30/09/14	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.

Investigations

Audit Area	Assurance Objective	Status	Overall Audit Opinion	Summary of Significant Issues
Supported Living	To investigate suspicions of financial abuse of vulnerable adults.	16/07/14	n/a	We identified several areas relating to the use of clients' personal monies which we have referred to Management to follow-up. Senior management are working with the relevant service provider to clarify and resolve the areas raised.
Car Parking Income	To investigate a series of losses of cash income from pay and display machines.	09/01/15	n/a	The audit identified weaknesses in the arrangements for the storage of cash income at Riverside House following collection from pay and display machines. Recommendations have been made to strengthen arrangements, which have been accepted by management.
Facilities Services	To investigate a whistleblowing allegation that caretakers employed within Facilities Services had not paid over to the Council proceeds from the sale of Council scrap metal.	05/09/14	n/a	Internal Audit was able to substantiate the allegation made. Following a disciplinary hearing, the Director issued a final written warning to the employees concerned. The employees paid back to the Council the sum of money involved.
Car Parking	To investigate an allegation that a parking warden was working elsewhere whilst drawing sickness pay from the Council.	14/01/15	n/a	Internal Audit was able to substantiate the allegation made. The employee resigned from the Council.

