

ROTHERHAM BOROUGH COUNCIL - REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	22nd July 2015
3.	Title:	Internal Audit Progress Report 2015/16 Quarter One
4.	Directorate:	Finance and Corporate Services

5. **Summary.**

This report provides a summary of Internal Audit work completed during the three months ending 30 June 2015 and the key issues that have arisen from it. It also provides information regarding the performance of the Internal Audit function during the period.

6. **Recommendation**

The Audit Committee is asked to:

- i) **Note the Internal Audit work undertaken during the three months ending 30th June 2015 and the key issues that have arisen from it.**
- ii) **Note the information contained regarding the performance of Internal Audit during the period.**

7. Proposals and Details.

Internal Audit produced a risk based Annual Internal Audit Plan in accordance with the UK Public Sector Internal Audit Standards (UKPSIAS). This was received by the Audit Committee at its meeting on 5 May 2015. The Plan is regularly monitored and reviewed during the year so that it provides sufficient coverage of the key risks facing the Council.

During the year, the Audit Committee will receive regular updates on the work of Internal Audit and a summary of the key issues that have arisen. This is the first of four quarterly progress reports and summarises the main activities of the Internal Audit service for the first three months of 2015/16.

The quarterly progress report is attached at **Appendix 1**. It includes the following information:

- The audit planning process
- Audit work undertaken during the period, including both planned and responsive work
- Management response to audit reports
- Internal Audit performance indicators.

Headlines from the report include:

- An Internal Audit Plan for 2015/16 was produced in line with the UK Public Sector Internal Audit Standards
- We assessed the Council's internal control environment to be inadequate in 2014/15 following audit work undertaken in the areas of taxi licensing, a voluntary sector grant claim, the Integrated Housing Management System, records management and a review of the support package for Abbey School by Winterhill School.
- An action plan to address Internal Audit recommendations was in place for all audits completed during the period.
- Internal Audit delivered 13% of the audit plan in the first quarter of the year. This is not exceptional for the first quarter of the year when work carried over from the previous year is finished off, and we are confident % completion will move back into line with expectations in the next few months.

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 Finance and Corporate Services 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 (England) Regulations 2015

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Appendix 1: Internal Audit Progress Report 2015/16 Quarter One

Finance and Corporate Services Directorate

Appendix 1: Internal Audit Progress Report 2015/16 Quarter One

1. Purpose of the Report.

- 1.1 To provide a summary of Internal Audit work completed and the key issues arising from it for the three months ending 30th June 2015.
- 1.2 To provide information regarding the performance of the Internal Audit function during the period.

2. Introduction.

- 2.1 Internal Audit produced a risk based Annual Internal Audit Plan in accordance with the UK Public Sector Internal Audit Standards (UKPSIAS). This was received by the Audit Committee at its meeting on 5 May 2015. The Plan is regularly monitored and reviewed during the year so that it provides sufficient coverage of the key risks facing the Council.
- 2.2 At the end of the financial year, Internal Audit will produce an Annual Internal Audit Report, which will provide our overall opinion on the adequacy of the Council's control environment and compliance with it during the year.
- 2.3 This report summarises the main activities of the Internal Audit service for the first three months of 2015/16. The report is presented to the Audit Committee to enable it to fulfil its responsibility for overseeing the work of Internal Audit.

3. Legislation Surrounding Internal Audit.

- 3.1 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.”

- 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 Commissioner Managing Director, the other Commissioners appointed by the Government, the Head of Paid Service, 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 2015/16 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.

4.2 The 2015/16 Audit Plan was approved by Audit Committee on 5 May 2015.

4.3 During the first part of the quarter, we have focused significant resources on the audit planning process. This is to ensure that the 2015/16 audit plan is compliant with the requirements of the UK Public Sector Internal Audit Standards, and that Internal Audit is able to maximise the value and assurance we provide the Council's Executive / Commissioners, while ensuring we fulfil our statutory obligation to review and report on the Council's internal control environment.

5. Audit Work Undertaken During the Period

5.1 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.

5.2. Summary of Findings from Audit Reviews

Summary conclusions in all significant audit work concluded during the three months ending 30th June 2015 are set out in **Appendix A**. Appendix A also lists the audits that are at draft report stage. We have not provided our overall opinion on these nor have we provided a summary of the significant issues arising, because we have not yet been able to discuss the issues with management.

5.3 Audits with Inadequate Control Environment

Our work concluded that the control environment was inadequate in five areas, detailed below.

Directorate / Audit Area	Report to mgt	Summary of Significant Issues
EDS Taxi Licensing	26/06/15	This audit identified a number of serious failings with regard to the completion of processes leading to the issuing of operator, driver and

Directorate / Audit Area	Report to mgt	Summary of Significant Issues
		vehicle licenses. We made detailed recommendations, which have been or are being actioned by management, to strengthen arrangements. We will carry out a follow-up audit of this sensitive area to confirm that recommendations have been implemented in full.
EDS Voluntary Organisation grant claim	10/06/15	A voluntary organisation claiming grant from the Council could not provide evidence that confirmed delegates' attendance at events for which the claim had been made. We were, therefore, unable to approve the claim.
EDS Integrated Housing Management System	05/06/15	We have identified significant problems with the implementation of the new housing management system, including with specific aspects of its functionality, security and its interface with other Council systems, resulting in significant delays to implementation. We also found weaknesses in the contract for the system. Council officers are working with the developer to address the issues prior to go live, which is expected for the Autumn.
RESOURCES Records Management	13/07/15	This audit identified significant weaknesses in the process for managing the Council's paper based records and gaps in the information kept about a large volume of records held at Bailey House.
CYPS Abbey School	12/05/15	The audit highlighted a number of weaknesses in the governance of the arrangement between Winterhill School and Abbey School, including: <ul style="list-style-type: none"> • Lack of clear lines of accountability for monitoring delivery of the support package • No clear basis for arriving at the cost of the support package.

5.3 In addition to our assurance work, we also investigate allegations of fraud, corruption or other irregularity. Details of significant investigations completed in the period are set out in **Appendix B**.

6. Management Response to Audit Reports.

6.1 Following the completion of audit work, draft reports are sent to the responsible manager to obtain their agreement to the report and commitment to the implementation of recommendations. This results in the production of an Action Plan, containing details of implementation dates and the officers responsible for delivery.

- 6.2 Internal Audit subsequently seeks assurance from that agreed actions emanating from audit work have been implemented. As a minimum this involves contacting the manager responsible two months after the issue of the final audit report to seek written confirmation that agreed actions have been implemented or where they have not that 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.
- 6.3 It is pleasing to note that an Action Plan has been agreed in respect of each final audit report issued. See Appendix A for further details.
- 6.4 The two month timescale for seeking confirmation that agreed actions have been implemented has not been reached for any of the audit reports referred to in this quarterly progress report. We will provide details on progress in implementing recommendations in our next update report.

7. Assessment of the Control Environment for Quarter to 30th June 2015.

- 7.1 We do not provide an overall opinion on the Council's control environment at the first quarter stage due to the limited number of audits that have been undertaken. We will provide our overall opinion at the half year stage and at the end of the year in the Annual Internal Audit Report.

8. Work for Outside Bodies

- 8.1 During the period Internal Audit provided audit services on a fee earning basis to the Wingfield academy school. 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.

9. Internal Audit Performance Indicators

- 9.1 Our performance against a number of indicators is summarised below:

Performance Indicator	2015/16 Target	Apr to Jun 2015
Draft reports issued within 15 days of field work being completed.	95%	88%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%
Chargeable Time/Gross Time.	63%	69%
Audits completed within planned time.	95%	75%
Percentage of Audit Plan completed.	85% (full year)	13% At 30 June
Cost per Chargeable Day.	£275	£266
Client Satisfaction Survey.	100%	None received

- 9.2 Achievement in relation to the "Percentage of Audit Plan completed" (13% at 30 June 2015) is not unusual at this stage of the financial year, being skewed by four key factors:

- A significant focus of Internal Audit activity during the early part of the period was completion of 2014/15 audit work which overlaps the end of the financial year; this is ordinarily the case in any year.
- There have been a number of audits carried forward from 2014/15 that have taken longer to complete than anticipated due to the complex nature of the issues involved. These include the audits of taxi licensing, Risky Business and the Key Players Group records.
- A significant proportion of resource during April was devoted to the production of the 2015/16 Internal Audit Plan, adopting an updated approach following comments in the Casey Report about the approach to internal audit.
- An assurance mapping exercise is being undertaken to maximise the efficiency and effectiveness of our work in the key area of Children's Social Care. This is involving working with colleagues from the Performance and Quality function to understand where reliance can be placed on other internal sources of assurance, including the CYPS Quality Assurance function.

- 9.3 We are currently using additional interim resources to help with delivery of the Plan which will improve overall performance. Through the use of a risk based approach to our work and careful use of our resources through performance management, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment, whilst helping the organisation achieve its objectives by adding value.
- 9.4 Two reports were issued after 15 days; one was due to the complexity of issues involved and lengthy discussions with management about the report and the second was as a result a member of staff leaving and another officer picking up the reporting of the work.
- 9.5 The indicator relating to "Audits completed within planned time" is also behind target. This is due to a number of complex pieces of work taking longer than was anticipated. In some cases these included investigative work where new evidence emerged which had not been expected at the onset of the investigation.

Summary of Audit Work Undertaken

Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
CHILDREN AND YOUNG PEOPLE SERVICES				
Adoption Allowances	To obtain assurance that the Council has proper processes in place for the payment of Adoption/ Residence Order/Child Arrangement and Special Guardianship Allowances.	20/05/15	Adequate	<p>Children and Young People's Services discovered a significant Adoption Allowance overpayment (totalling £16,078) had been made over a period of 15 months between October 2013 and January 2015. This arose due to a manual error made in transferring payment details onto the SWIFT system. Investigations by management and Internal Audit confirmed this to be an isolated error. A series of audit recommendations were agreed which will reduce the likelihood of errors in future.</p> <p>Recovery of the overpayment is being pursued by the Council.</p>
Children's Social Care Emergency Payments	To assess the robustness of financial administration arrangements in Riverside House with regard to Emergency Payments.	13/04/15	Adequate	Overall the arrangements were assessed as adequate, although one significant weakness was identified; this was that a number of people had access to the safe, which would make it difficult to identify any individual responsible for any shortfalls in the money held. Actions have been agreed with management to strengthen this and other, minor, weaknesses found.
Early Education Provision	To assess the adequacy of the arrangements in place to manage key risks associated with Early Education provision.	Draft report issued	n/a	n/a

APPENDIX A

Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
Clifton Community School	To assess the financial management arrangements at Clifton Community School.	Draft report issued	n/a	n/a
ENVIRONMENT AND DEVELOPMENT SERVICES				
Taxi Licensing	To ensure that necessary checks are performed before issuing licences for drivers, vehicles and operators.	26/06/15	Inadequate	<p>This audit identified a number of serious failings with regard to the completion of processes leading to the issuing of operator, driver and vehicle licenses. It also revealed weaknesses in communication and information sharing between the administration and enforcement teams, which meant the enforcement did not always have up to date details with which to carry out its responsibilities. We made detailed recommendations, which have been or are being actioned by management, to strengthen arrangements.</p> <p>We will carry out a follow-up audit of this area to confirm that recommendations have been implemented in full.</p>
Voluntary Organisation Grant Claim	To audit the documentation supplied by a voluntary organisation in support of their grant claim.	10/06/15	Inadequate	The organisation could not provide evidence that confirmed delegates' attendance at events for which the claim had been made. We were, therefore, unable to approve the claim.
Integrated Housing Management System	To assess the Council's arrangements for the management of the project risks arising from the implementation of the new Integrated Housing Management System.	05/06/15	Inadequate	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 significant delays to implementation. We also found weaknesses in the contract for the system. Council officers are working

APPENDIX A

Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
				with the developer to address the issues prior to go live, which is expected for the Autumn, but there remain a number of risks to the successful implementation of this project. We will continue to review developments.
Fuel System	To review the adequacy of the arrangements in place for the supply of fuel to Council vehicles from Hellaby, Barbers Avenue and Oaks Lane depots. To review the adequacy of the arrangements in place for the issuing and use of fuel cards.	23/04/15	Adequate	Arrangements were found to be adequate.
Registrars	To assess progress made with the implementation of the recommendations made by the General Register Office, following its inspection of the Council's service in January 2015.	Draft report issued	n/a	n/a
Barnsley, Doncaster and Rotherham (BDR) Waste PFI	To validate the cost of the Rotherham MBC client function as required by the BDR external auditor, BDO.	Draft report issued	n/a	n/a
Business Continuity Management	To assess the adequacy of the Council's Business Continuity arrangements.	Draft report issued	n/a	n/a

APPENDIX A

Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
RESOURCES				
Records Management	To determine whether the Council has an adequate records management system in place for its paper records, in light of the findings arising from an audit investigation regarding the minutes of the Key Players Group meetings.	13/07/15	Inadequate	<p>This audit identified significant weaknesses in the process for managing the Council's paper based records and gaps in the information held about a large volume of records held at Bailey House.</p> <p>Recommendations were made to improve the system in place and to assess the actions required with regard to the unrecorded boxes.</p>
NNDR	Ensure that the Council has proper arrangements in place for the collection of national non domestic rates.	28/05/15	Adequate	Arrangements were found to be adequate.
Benefits	Ensure that the Council has proper arrangements in place for the administration of Housing Benefits and Council Tax Support.	22/06/15	Adequate	Arrangements were found to be adequate.
Creditors	Ensure that the Council has proper arrangements in place for the payment of creditors	Draft report	n/a	n/a
ADULT SOCIAL CARE				
Better Care Fund	To assess the adequacy of the arrangements for the	12/05/15	Adequate	Arrangements were found to be adequate.

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Audit Area	Assurance Objective	Final Report to man't	Overall Audit Opinion	Summary of Significant Issues
	administration of the Better Care Fund, including budgetary control and risk management processes.			
GRANTS				
Troubled Families Grant	Audit in accordance with grant funding body requirements.	27/05/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Camino Grant April 2014 to March 2015	Audit in accordance with grant funding body requirements.	30/04/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.
Disabled Facilities (Adaptations) Grant	Audit in accordance with grant funding body requirements.	15/07/15	Adequate	The grant was found to be accurately compiled and in accordance with grant criteria.

Investigations / Responsive

Audit Area	Assurance Objective	Status	Overall Audit Opinion	Summary of Significant Issues
Abbey School	To consider the adequacy of arrangements in place for the brokering and monitoring of the partnering arrangement between Abbey School and Winterhill School.	12/05/15	Inadequate	<p>The audit confirmed the results of an external review into this issue (the Bell Report) and highlighted a number of weaknesses in the governance of the arrangement between Winterhill School and Abbey School, including:</p> <ul style="list-style-type: none"> • No clear basis for arriving at the cost of the support package • Lack of clear lines of accountability for monitoring delivery of the support package <p>An Interim Executive Board has now been put in place to oversee the extension of the arrangement to 31st August 2015. The Board is working in partnership with the Council. Early indications are that this arrangement will be far more satisfactory.</p> <p>Audit recommendations were agreed with management which should ensure more robust governance around any future arrangements that are brokered between schools.</p>
Risky Business	To investigate an allegation that files regarding child sexual exploitation belonging to a researcher were stolen from the International Centre in April 2002.	Draft report	n/a	n/a
Key Players Group records	To investigate why the Council was unable to comply with a request by	Draft report	n/a	n/a

APPENDIX B

Audit Area	Assurance Objective	Status	Overall Audit Opinion	Summary of Significant Issues
	Professor Jay to be provided with records of the Key Players Group as part of her Independent Enquiry into Child Sexual Exploitation.			