Rotherham Metropolitan Borough Council

Public Report, ***With Restricted Appendix***

Council Report
Audit Committee Meeting – 20 July 2016

Title
Internal Audit Progress Report for the Three Months Ending 30 June 2016.

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)
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Internal Audit, Finance and Customer Services
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Ward(s) Affected
All wards.

Executive Summary
This report provides a summary of Internal Audit work completed during the period April 2016 to June 2016 and the key issues that have arisen from it. It also provides information regarding the performance of the Internal Audit function during the period.

Following the presentation of the PWC review of Internal Audit report to the Audit Committee in February 2016, Veritau Ltd was commissioned to independently review and provide commentary on Internal Audit progress reports presented to the Audit Committee in 2016/17. Veritau Ltd has reviewed the attached report and has confirmed it is a "*reasonable reflection of the work done"* by the service during the period.

Recommendations
The Audit Committee is asked to:

i) **Note the Internal Audit work undertaken during the three months ending 30 June 2016 and the key issues that have arisen from it.**

ii) **Note the information contained regarding the performance of Internal Audit and the actions being taken by management in respect of the performance.**

iii) **Note the independent assurance provided by Veritau Ltd on the report.**

List of Appendices Included
Appendix 1 – Internal Audit Progress Report for the Three Months Ending 30 June 2016 (exempt).

Background Papers
UK Public Sector Internal Audit Standards.
Accounts and Audit (England) Regulations 2015.

Consideration by any other Council Committee, Scrutiny or Advisory Panel
No.

Council Approval Required
No.

NOTE: The Appendices to the attached report are restricted because they contain commercially confidential business

Exempt from the Press and Public
Yes. That, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (information relating to the financial or business affairs of any particular person (including the Council).

Title: Internal Audit Progress Report for the Three Months Ending 30 June 2016

1. Recommendations

The Audit Committee is asked to:

i) Note the Internal Audit work undertaken during the three months ending 30 June 2016 and the key issues that have arisen from it.

ii) Note the information contained regarding the performance of Internal Audit and the actions being taken by management in respect of the performance.

iii) Note the independent assurance provided by Veritau Ltd on the report.

2. Background

2.1 Internal Audit produced a risk based Annual Audit Plan in accordance with the UK Public Sector Internal Audit Standards. This was received by the Audit Committee at its meeting on 27 April 2016. The Plan is regularly reviewed and monitored 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 is the first of four quarterly progress reports and summarises the main activities of the Internal Audit service for the first three months of 2016/17.

3. Key Issues

3.1 The quarterly progress report is attached at **Appendix 1** and includes the following information:

- The Audit Planning Process
- Audit work, planned and responsive, undertaken during the period
- Management response to audit reports
- Internal Audit performance indicators.

3.2 Headlines from the report include:

- An Internal Audit Plan for 2016/17 was produced in line with the UK Public Sector Internal Audit Standards.
- Internal Audit has delivered 7.5% of the audit plan in the first quarter of the year against an expectation of 12%. Reasons for this are stated in the report.
- Management responses and action plans were in place for all recommendations made by Internal Audit during the period.

3.3 Internal Audit progress reports will be reported to the Audit Committee at each of its meetings during 2016/17. Veritau Ltd has been asked to review and provide independent comment on the progress reports. Veritau Ltd reviewed a draft progress report and selected supporting information, made some helpful suggestions / comments that have been reflected in this final report, and concluded:

"The overall picture of internal audit activity for the first quarter, as set out in the monitoring report is a reasonable reflection of the work done".

4. Options considered and recommended proposal

4.1 This report is presented to enable the Audit Committee to fulfil its responsibility for overseeing the work of Internal Audit. It provides a summary of Internal Audit work completed and the key issues arising from it for the three months ending 30 June 2016 and information about the performance of the Internal Audit function during this period.

5. Consultation

5.1 All Internal Audit reports referred to in this report have been discussed and agreed with management in the respective service areas.

6. Timetable and Accountability for Implementing this Decision

6.1 The Audit Committee is asked to receive this report at its July 2016 meeting.

7. Financial and Procurement Implications

7.1 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 Corporate Services Directorate.

8. Legal Implications

8.1 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."*

8.2 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"*

9. Human Resources Implications

9.1 There are no direct Human Resources implications arising from this report. However, it should be noted that during the period the Internal Audit structure has been reviewed and, going forward, a new Head of Internal Audit will be recruited who will report directly to the Strategic Director Finance and Customer Services.

10. Implications for Children and Young People and Vulnerable Adults

10.1 This document constitutes a report of progress against delivery of the Internal Audit Plan 2016/17. A significant proportion of the Plan is one again devoted to the examination of risks facing Children and Young People's Services and Adult Social Care.

11. Equalities and Human Rights Implications

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

12. Implications for Partners and Other Directorates

12.1 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.

13. Risks and Mitigation

13.1 The following risks have been identified.

Risk	Likelihood	Impact	Mitigation
Internal Audit may not deliver sufficient audit work to enable an opinion to be provided on the Council's control environment.	Medium	High	A recruitment process is underway to fill current vacant posts. Any need for temporary additional resources will be considered by the Strategic Director Finance and Customer Services on an ongoing basis. Additional resources will be provided where necessary.
Audit recommendations may not be implemented, leaving the Council exposed to risk.	Low	High	Internal Audit has an established process for the follow up of implementation of agreed audit recommendations. This includes escalation to the appropriate Assistant Director and Strategic Director in cases of non-compliance. Any cases of non-compliance will also be reported to DLT / SLT and Audit Committee in future reports.

14. Accountable Officer(s)

Colin Earl, Assistant Director of Audit, Procurement and ICT.

Appendix 1:

Finance and Customer Services Directorate

Internal Audit Progress Report for the Three Months Ending 30 June 2016

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 30 June 2016.

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 27 April 2016. 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 2016/17. The report is presented to the Audit Committee to enable the Committee 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 Commissioners appointed by the Government, The Chief Executive; Head of Paid Service, the Responsible Financial Officer, the Monitoring Officer and the Audit Committee as per the requirements set out in the Internal Audit Charter.

4. Audit Planning Process

4.1 The 2016/17 Audit Plan was produced in line with the UK Public Sector Internal Audit Standards and examined the whole audit universe, taking into 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 Improvement 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 2016/17 Audit Plan was approved by Audit Committee on 27 April 2016.

5. Factors affecting audit work completion in Quarter 1

5.1 The service is facing a very significant transition period involving a restructure, a further reduction in resources available to the team to 7fte for 2016/17 (from 9fte in 2015/16), 2 vacancies – reducing the current resource level to 5 fte, and a current vacancy for a Head of Internal Audit. All of these have negatively impacted upon the resource available to progress the audit programme during quarter 1. See Also 10.2.

5.2 Various other factors have impacted on the delivery of planned audit work, including:

- Work and time required to progress actions in the PWC Review of Internal Audit Action Plan.
- Implementation of and the Assessment of compliance with the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) Action Plan.
- Devotion of resources into ensuring progress on the delivery of recommendations contained in the Anti-Fraud and Corruption Action Plan.
- Significant resources have been expended at the request of the Chief Executive on responsive work resulting from the information security incident at Wath Town Hall and the subsequent action plan resulting from this. This is detailed further at **Appendix B.**

5.3 The Strategic Director of Finance and Customer Services and Assistant Director Audit, ICT and Procurement are managing the change and have put in place various actions to ensure the delivery of the audit and improvement plans, including:

- Appointing a support partner (Veritau)
- Commencing a recruitment process for a Head of Internal Audit
- Confirming a short term contract for a temporary auditor
- Pursuing other resource options including discussions with neighbouring authorities with regard to temporary support and the potential appointment of temporary audit staff.

These actions will ensure the delivery of the audit plan is at the expected level within 3 months.

6. Audit Work Undertaken During the Period

6.1 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. Summary conclusions for audit work concluded during the three months ending 30 June 2016 are set out in **Appendix A**.

6.4 In addition to our assurance work, we also carry out requests for responsive work, together with investigations of any allegations of fraud, corruption or other irregularity. Details of significant responsive work carried out in the period are set out in **Appendix B**. Various items are included relating to information governance and these arose following the discovery of weaknesses found during one audit. One 'inadequate' audit opinion was given following this proactive programme of work, details of which are included in Appendix B.

7. Management Response to Audit Reports

7.1 Following the completion of audit work, draft reports are sent to the responsible managers to obtain their agreement to the report and commitment to the implementation of recommendations. This results in the production of agreed action plans, containing details of implementation dates and the officers responsible for delivery.

7.2 An Action Plan has been agreed in respect of each final audit report issued. See **Appendix A** for further details.

7.3 Confirmation of implementation of audit recommendations is sought from service managers in most cases two months after actions have been agreed. Where fundamental weaknesses in internal control arrangements have been identified, more detailed follow work is undertaken. As the audit reports referred to in this update have been issued within the last two months, we cannot comment on the current status of the actions. Details on the implementation of audit recommendations will be included in the second quarter update report.

7.4 We have also introduced procedures to report any lack of progress in implementing recommendations to Directorate and Strategic Leadership Teams, and the Audit Committee.

8. Assessment of the Control Environment for Quarter to 30 June 2016.

8.1 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.

9. Work for Outside Bodies

9.1 During the period Internal Audit provided audit services on a fee earning basis to six 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.

10. Internal Audit Performance Indicators

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

Performance Indicator	2016/17 Target	Apr to Jun 2016
Draft reports issued within 15 working days of field work being completed.	95%	91%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%
Chargeable Time / Gross Time.	72%	74%
Audits completed within planned time.	95%	100%
Percentage of Audit Plan completed (target at June 2016).	12%	7.5%
Cost per Chargeable Day.	£295	£310
Client Satisfaction Survey.	100%	None received

10.2 This year, as with previous years, the audit plan target runs from May (2016) to April (2017). This was historically based upon the service carrying out year-end tests on financial systems in March / April each year, in part to provide support to the external auditor's work on the statement of accounts. However, as the external auditor's approach has evolved over time, it has become no longer crucial for Internal Audit to carry out the work at / slightly after the financial year end. It is, therefore, planned to revert to a traditional April to March audit year from 2017. Appropriate resources will be sought to ensure sufficient work is brought forward to complete the audit programme earlier than originally planned.

10.3 The expected % audit plan completion delivery profile, and actual performance to date / *current full year projection,* are as follows for 2016/17:

	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Expected	6	12	18	26	36	46	56	64	74	84	92	100
Actual / *Projected*	3	7.5	*16*	*24*	*35*	*46*	*58*	*66*	*78*	*90*	*100*	--

Actual performance to date in relation to the indicator (7.5% at 30 June 2016) has been skewed by the factors outlined within Section 5.

10.3 We are currently using additional temporary 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 form an opinion on the Council's control environment at year end.