

Council Report

Audit Committee – 18th June 2019.

Title

Internal Audit Annual Report 2018 – 2019.

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

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Ward(s) Affected

All wards.

Executive Summary

This report provides information on the role of Internal Audit; the work completed during 2018/19 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 2018/19.

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.

Recommendations

The Audit Committee is asked to:

1. Note the Internal Audit work undertaken during the financial year 2018/19 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 2018/19.

List of Appendices Included:-

Appendix 1 – Internal Audit Annual Report 2018/19.

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.

Title: Internal Audit Annual Report 2018 / 2019.

1. Recommendations

The Audit Committee is asked to:

- 1.1 Note the Internal Audit work undertaken during the financial year 2018/2019 and the key issues that have arisen from it.
- 1.2 Note the overall opinion of the Head of Internal Audit
- 1.3. Note the information contained regarding the performance of Internal Audit during 2018/19.

2. Background

- 2.1 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 June 2018. The Plan was regularly reviewed and monitored during the year so that it provided sufficient coverage of the key risks facing the Council.
- 2.2 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.
- 2.3 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 2018/19, 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

3. Key Issues

- 3.1 The Head of Internal Audit's opinion is that there was overall an adequate and effective framework of governance, risk management and control.
- 3.2 We gave an opinion of Partial Assurance or No Assurance in fifteen areas subject to audit.
- 3.3 We can confirm that action plans have been agreed with management in respect of all final audit reports issued.

- 3.4 There were substantial changes to the Internal Audit team during 2018/19. The team was affected by staff members leaving and the time taken to recruit replacements. 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.
- 3.5 Public Sector Internal Audit Standards (PSIAS) require that an assessment of the Internal Audit function must be undertaken annually. The internal assessment in January 2019 showed general conformance with the standards, which matched the assessment the previous year. The most recent external assessment in late 2015 had shown non-conformance.
- 3.6 A Quality Assurance and Improvement Programme (QAIP) was put into place during 2018 with the results reported to the Audit Committee in February 2019. This showed 10 of the 17 actions had been completed. An updated QAIP based on the internal assessment has been produced to maintain and increase the level of conformance within the team. This has 27 recommendations and suggestions which will be actioned and monitored during 2019.

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 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.

5. Consultation

- 5.1 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.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The Audit Committee is asked to receive this report at its 18th June 2019 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 Customer 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 is noted that during 2018/19 there were significant changes to the membership of the team.

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 2018/19. A significant proportion of the Plan was 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 risk has been identified.

Risk	Impact	Likelihood	Mitigation
Insufficient and / or ineffective resources / skills. Inadequate service. Failure to meet the requirements of S151 of the LG Act 1972 and the Accounts and Audit Regulations, to provide an effective internal audit. Council exposed to risks (fraud / errors / inefficiencies) from unexposed control weaknesses.	Med	Low	Implementation of action plan. Resources monitored to ensure sufficient to complete the plan.

14. Accountable Officer

David Webster, Head of Internal Audit.

Rotherham Metropolitan Borough Council

Internal Audit Annual Report 2018/19

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 2018/19 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 2018/19 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 December 2017 and the results reported to the Audit Committee in February 2018. The Internal Audit Service was assessed as generally conforming to the Standards. The assessment resulted in the development of a QAIP for 2018. During 2018, 10 of the 17 actions were completed. Another self-assessment was completed in January 2019 with the results reported to the Audit Committee in February 2019. It was completed by an experienced Senior Auditor newly recruited to the department to give a degree of independence and an outside view. The self-assessment showed that general conformance with the standards had been maintained. An updated QAIP was then produced to continue the improvement during 2019. This will be implemented and monitored during 2019.

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.

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.

During the year the integrated internal audit software was developed to include automated reporting and recommendation tracking. Client satisfaction surveys and audit questionnaires will be developed in the future, whilst it is also possible to integrate strategic planning and scheduling. The structure of the software helps to enforce standardised modern working practices and contributes to conformance with the standards.

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.

2 Internal Audit Assurance for 2018/19

2.1 Internal Audit Opinion

For the year ending 31 March 2019, 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 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.

2.3 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 governance covering codes of conduct, registers of interest and hospitality and induction. There was also a review on the production of the Annual Governance Statement. 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, the Head of Internal Audit and the Assistant Director, Legal Services. 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 2018.

The group has the following roles:

- Have oversight of the Local Code, 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 June 2018 and

January 2019, and Directorate risk registers on a rolling basis throughout the year. Internal Audit completed a review of risk management in February 2019 and gave an audit opinion of substantial assurance.

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 2018/19 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. 63% of audits where an assurance level was given resulted in a Substantial or Reasonable assurance level. No area stood out as being worse than the others. During 2018/19 182 recommendations were made to improve the internal control, risk management and governance arrangements across the Council. Summary results are given in Appendix A together with definitions of the assurance levels and recommendation categories.

2.4 Resources

At the time the Internal Audit Plan was agreed in April 2018, the establishment structure had been agreed as 8 fte employees. One of the team was seconded to Finance and being covered by an incoming secondee. The secondee from the team gained a permanent position within Finance. A recruitment exercise took place, resulting in the incoming secondee becoming a permanent member of the team. One Senior Auditor left the team in April 2018 and another in October 2018. Recruitment took place but their replacements did not commence work with the team until January 2019. The effect of this was that the team was understaffed by 1 fte during the year. The team is now fully staffed.

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 2018/19 to enable the Head of Internal Audit to provide his overall opinion.

2.5 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 2018. Any further changes were presented to the Audit Committee as they arose.

2.6 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	20	20	10
Assistant Chief Executive	135	110	98
Adult Care and Housing	120	90	65
Children and Young People Services	140	115	139
Finance and Customer Services	225	190	219
Regeneration and Environment	130	100	85
Investigations and Advice / Consultancy	200	200	241
Advice / Consultancy	80	80	68
Anti-Fraud	30	30	42
Grants	50	50	53
Software Development	20	20	36
Total	1150	1005	1056

The plan is produced after taking into account estimated unproductive time. During 2018/19 the actual unproductive time was in line with the plan.

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 66 audits to be completed in 1150 days. After a mid-year review this was changed in September 2018 to 54 audits in 1005 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 2018/19, as can be seen in Appendix A, 40 final reports were issued, plus 8 investigation reports. In addition, at year end there were another 10 audit reviews that had been completed, with the reports in draft form. In overall terms, this shows that the plan was substantially achieved.

2.7 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.

2.8 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 contacting the manager responsible to seek written confirmation 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.

A new system of tracking audit recommendations was implemented in May 2018. A report on aged outstanding actions is presented to the Audit Committee at each meeting. This initially included a backlog of aged actions, which has proved difficult to clear. At the start of the year there were 60 overdue outstanding actions. By the March committee this had reduced to 49, but further work has been undertaken after the year end and the total now stands at 29.

2.9 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.

2.10 Investigations and Advisory/Consultancy work

During the year 241 days were spent on investigations. 8 were completed during the year with 5 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 68 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.

2.11 Anti-Fraud work

During the year the department completed the following:

- The Anti-Fraud and Corruption Policy and strategy were updated and presented to the Audit Committee in October 2018. They were subsequently entered onto the Intranet.
- Continued to work on the National Fraud Initiative to identify errors and fraud.
- Re-issued fraud awareness e-learning to Members and relevant staff.

2.12 Grants

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

- Troubled Families Grant
- Local Transport Capital Block Funding
- Disabled Facilities Grant
- Active Ability Grant
- Active Rotherham Communities Grant
- Active for Health Grant
- NO₂ Early Measures Fund
- Bus Service Operators

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

2.13 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 Head of Service, Performance and Planning, CYPS presents a bi-annual 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 2018.

2.14 External work

During the period Internal Audit provided audit services on a fee earning basis to the following academies:

- Wingfield Academy
- Anston Greenlands Primary
- Herringthorpe Junior
- Greasbrough Primary

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.

2.15 Internal Audit Performance Indicators

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

Performance Indicator	2017/18 Actual	2018/19 Target	2018/19 Actual
Draft reports issued within 15 days of field work being completed.	80%	90%	97%
Chargeable Time / Total Time.	70%	72%	72%
Audits completed within planned time.	76%	90%	89%
Client Satisfaction Survey.	100%	100%	100%

Performance has increased to meet the targets as the audit software has become embedded, including automated report generation and action tracking.

Analysis Of Internal Audit Opinions and Recommendations Made in 2018/19

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>***</i>	<i>**</i>	<i>*</i>	<i>Total</i>
Corporate	0	1	0	0	0	1	0	1	8	9
Assistant Chief Executive	1	4	3	2	0	10	6	20	19	45
Adult Care and Housing	1	3	0	0	0	4	0	6	10	16
Children and Young People Services	3	3	5	0	0	11	2	29	11	42
Finance and Customer Services	5	2	4	0	0	11	1	27	19	47
Regeneration and Environment	1	1	0	1	0	3	4	9	10	23
Investigations					8	8				
Total	11	14	12	3	8	48	13	92	77	182

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

***	<i>Fundamental</i>	<i>(Action considered necessary to avoid exposure to high risk)</i>
**	<i>Significant</i>	<i>(Action considered necessary to avoid exposure to a significant risk)</i>
*	<i>Merits Attention</i>	<i>(Action desirable to enhance control or value for money)</i>