

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

Meeting:	Audit Committee
Date:	7 th December 2011
Title:	Review of Progress Against the Internal Audit Plan for Seven Months ending 31 st October 2011
Directorate:	Resources

5. Summary.

This report contains a summary of Internal Audit's work and performance for the seven months ending 31st October 2011. The service has achieved good performance in the period, exceeding most of its stretch targets.

The audit work completed to date has confirmed the Council has a robust overall control environment.

6. Recommendations.

The Audit Committee is asked to:

- **note the performance of the Internal Audit Service during the period**
- **note the key issues arising from the work done in the period**
- **note the revisions made to the Audit Plan.**

7. Proposals and Details.

7.1 Reason for this Report.

This report summarises the main activities of the Internal Audit service for the first seven months of 2011/12. The report is presented to the Audit Committee to enable the Committee to fulfil its responsibility to oversee the work of Internal Audit. The report summarises:

- performance against key service benchmarks
- planned audit reports issued during the period, highlighting the overall conclusion for each audit
- the number of high priority recommendations made
- the proportion of recommendations agreed / not agreed
- a summary of responsive work undertaken
- revisions to the Audit Plan required at this point in the year
- an analysis of use of audit resources
- a summary of key service developments during the period.

7.2 Performance Indicators.

7.2.1 Our performance against a number of indicators is summarised in the table below:

Performance Indicator	2009/10	2010/11	2011/12 Target	April to October 2011
Draft reports issued within 15 days of field work being completed.	90%	90%	91%	96%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	100%
Chargeable Time/Gross Time.	62%	62%	63%	64%
Audits completed within planned time.	82%	93%	93%	90%
Percentage of Audit Plan completed.	86%	84%	86%	85%*
Cost per Chargeable Day.	£307	£291	£270	£266
Client Satisfaction Survey.	90%	89%	90%	96%

* extrapolated from performance to date

7.2.2 A key target for the section for the year is to maximise chargeable time and successful performance in this respect so far has resulted in a substantially lower cost per chargeable day than in previous years. Client satisfaction has been excellent in the period. Our performance on the completion of audits within planned time is slightly below target. This has

been due to auditors identifying issues requiring further investigation whilst undertaking planned audit activity. We have also had the occasional delay due mainly to the need to obtain further information / clarification on specific issues following completion of the field work.

7.2.3 The achievement of these standards represents very good performance when taking into account a reduced level of resources this year and a loss of some productive time as a result of the move to Riverside House.

7.3 Planned Audit Reports and Recommendations.

Appendix A shows the audit reports issued and agreed during the first seven months of the year. Audit findings in all areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. However, our work shows that there are opportunities to strengthen arrangements in some areas. Implementation of Internal Audit's recommendations for improvement will reduce the Council's exposure to risks.

7.4 Responsive Audits.

Appendix B summarises responsive work carried out in the period, which can be categorised into two main areas:

- investigative work
- requests for advice and assistance.

A total of 227 auditor days has been spent on responsive work to date representing approximately 11% of available resources. Examples of the more significant areas examined in the period include:

a) CYPS: Primary School Childcare Club

Following a request by the Head Teacher, Internal Audit carried out an investigation into alleged irregularities in the administration of childcare income at a Primary School Childcare Club. This investigation found that income from childcare vouchers had been withdrawn without authorisation from the club bank account by a member of staff. During the course of investigatory interview this member of staff handed over nearly £4,000 in cash to the Principal Auditor conducting the interview. Internal Audit prepared a report and evidence pack for the Head Teacher and Human Resources for use in the disciplinary hearing. However, the member of staff resigned before the hearing could be arranged. Recommendations have been made by Internal Audit to strengthen procedures and controls and these are now being implemented by the school. These recommendations are also being considered by management in CYPS in terms of their relevance to other schools and children's centres throughout the Borough.

b) EDS: Car Park Income

Following a request by the Parking Services Manager, Internal Audit investigated the loss of car park income during April and May 2011. A surveillance operation was carried out by Internal Audit which quickly identified instances where cash income appeared to have been

misappropriated by a Civil Enforcement Officer. Comparison of income records against staff rotas would suggest that other previously identified losses may be attributable to the same employee although this cannot be proven. Internal Audit has prepared a report and evidence pack for management in EDS and Human Resources for use in a disciplinary hearing. The employee has been suspended pending the hearing.

c) CYPS: Children's Home

Internal Audit received information regarding alleged financial irregularities in the administration of petty cash and children's monies at a Children's Home. Advice was provided to the Operational Manager for Children's Homes on the conduct of the management investigation and recommendations were made to strengthen procedures and controls to help prevent future irregularities arising.

d) Internal Audit is carrying out other current investigations, including reviewing complaints into:

- Failure by an officer to follow proper procedures in awarding funding to a third party organisation and failure by the organisation to pay its consultants for work done, and
- Failure by an officer to make a declaration of interest while arranging for services to be provided by a company which the officer has an interest in.

7.5 Revised Audit Plan.

As part of our usual audit planning process we look to ensure that our plan is refreshed on an ongoing basis to reflect the fast changing environment in which the Council operates. A number of original planned audits are to be postponed to ensure we focus on mandatory work and the Council's key risks.

Revisions to the original 2011/12 Audit Plan are being made as follows:

Additional Audits / Emerging Risks		
Service Area	Audit Area	Comment
CYPS	Sixth Form Funding	Request by senior management in CYPS.
Financial Services	Review of Council's Financial Regulations	Revision needed to bring the Regulations up to date with Council changes

Audits Postponed to 2012/13		
Service Area	Audit Area	Comment
CYPS	Thorpe Hesley Infant School	Deferred to 2012/13 – allows time for review of sixth form funding as referred to above.
NAS	National Developments relating to Council House Right to Buy	Deferred to 2012/13 – not a key issue at the present time, although we will keep abreast of central government policy development.

7.6 Analysis of Use of Audit Resources

The Audit Plan presented to the Audit Committee in June identified the time available for internal audit during the year, the expected number of chargeable audit days and expected usage of available time. An analysis of the actual use of audit resources compared to the profiled budget at the end of October 2011 has been undertaken. This has revealed that time spent on service development and the completion of 2010/11 financial year audits has been higher than originally expected, with time spent on professional training and management review being less than planned at this stage.

A table showing a detailed analysis of the actual use of audit resource compared to the Plan is shown at Appendix C to this report.

7.7 Summary of Key Service Developments During the Period

Rotherham Internal Audit continues to work in partnership with Doncaster Internal Audit to further improve the efficiency and effectiveness of our working practices. Some of the main projects that are being progressed include:

Audit of Core Financial Systems – adoption of a more risk based approach to reduce time spent whilst continuing to meet KPMG requirements, International Auditing Standards and professional standards.

Anti Fraud and Corruption Work – updating of Anti Fraud and Corruption Strategies, to include the provisions of the Bribery Act 2010.

Review of Approach to Schools Audit – reduction in audit resources has accelerated the imperative to change our working practices. This has resulted in increased emphasis being placed on thematic reviews which aim to add value to our schools. Early indications appear to show very positive feedback from schools to this approach.

Reviews carried out by Internal Audit in this area include:

- Review of arrangements for letting capital contracts
- Review of building cleaning provision in schools
- Review of Schools Catering Service
- Review of extended schools childcare provision

Council Budget Reductions – We are considering the implications for control arrangements of any changes resulting from the implementation of Council-wide savings (e.g. changes to structure and/or processes that could affect the internal control environment). Also as part of this work, we are looking at the processes in place for managing the delivery of savings.

Work for other Local Authorities / External Bodies – As part of the partnership approach with Doncaster MBC's Internal Audit, a member of staff is currently working on the production of a strategic plan for ICT Audit for both Doncaster Council and St Leger Homes, the housing Arms Length Management Organisation in Doncaster. We have also provided advice to the Internal Audit section at Barnsley Council on ICT security issues, which has generated additional income for the service.

8. Finance.

There are no financial implications arising from this report.

9. Risks and Uncertainties.

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

10. Policy and Performance Agenda Implications.

The strength of Internal Audit impacts upon the Council's internal control environment. A sound control environment is part of good governance, which is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation.

Detailed audit reports.

Contact Names:

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Appendices:

Appendix A: Summary of Planned Audits Completed: April – October 2011

Appendix B: Summary of Internal Audit Responsive Work: April – October 2011

Appendix C: Analysis of Use of Audit Resources: April – October 2011

Summary of Planned Audits Completed: April – October 2011

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
<u>Chief Executive's Directorate</u>						
"Going Local" INTERREG Grant Claim	n/a	n/a	n/a	n/a	n/a	Adequate
Risk Management: Chief Executive's Directorate	2	1	1	0	0	Adequate
<u>Children and Young People's Services Directorate</u>						
Aston Lodge Primary School	22	22	0	0	0	Adequate
Brinsworth Whitehill Primary School	15	Awaiting Reply	Awaiting Reply	0	0	Adequate
Brampton Ellis Junior School	14	14	0	0	0	Adequate
Flanderwell Junior and Infant School	18	18	0	0	0	Adequate
High Greave Junior School	24	Awaiting Reply	Awaiting Reply	0	0	Adequate
Maltby St Mary's Catholic Primary School	17	17	0	0	0	Adequate
Rawmarsh Ryecroft Infant School	10	10	0	0	0	Adequate
Rawmarsh Ashwood Primary School	12	12	0	0	0	Adequate
Rawmarsh St Joseph's Catholic Primary School	22	22	0	0	0	Adequate
St. Bede's Catholic Primary School	26	26	0	0	0	Adequate
Swallownest Primary School	8	8	0	0	0	Adequate
Wath Victoria Junior and Infant School	16	16	0	0	0	Adequate
Wickersley St Alban's Primary School	22	22	0	0	0	Adequate
Dinnington Comprehensive School	28	28	0	0	0	Adequate
Rawmarsh Community School and Sports College	20	Awaiting Reply	Awaiting Reply	0	0	Adequate
Winterhill School	15	Awaiting Reply	Awaiting Reply	0	0	Adequate
Kelford School	26	Awaiting Reply	Awaiting Reply	0	0	Adequate

Summary of Planned Audits Completed: April – October 2011

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Looked After Children: Out of Borough Placements	2	2	0	0	0	Adequate
Devolved Capital Spending in Schools *	8	Awaiting reply	Awaiting reply	0	0	Adequate
School extended services: childcare (follow up to investigation of irregularity)	8	Awaiting Reply	Awaiting Reply	0	0	Adequate
Children's Social Services Locality Teams	9	Awaiting Reply	Awaiting Reply	0	0	Adequate
Schools Cleaning Contracts	4	Awaiting Reply	Awaiting Reply	0	0	Adequate
Review of School Bank Account Scheme	1	Awaiting Reply	Awaiting Reply	0	0	Adequate
Review of Financial Regulations for Schools	1	Awaiting Reply	Awaiting Reply	0	0	Adequate
<u>Neighbourhoods and Adult Services Directorate</u>						
Risk Management: Neighbourhoods and Adult Services	1	1	0	0	0	Adequate
Licensing Service	6	6	0	0	0	Adequate
<u>Environment and Development Services Directorate</u>						
Risk Management: Environment and Development Services	11	11	0	0	0	Adequate
Carbon Reduction Commitment Energy Efficiency Scheme *	14	14	0	0	0	Adequate
Grounds Maintenance	3	Awaiting Reply	Awaiting Reply	0	0	Adequate
<u>Financial Services Directorate</u>						
Risk Management: Financial Services	4	4	0	0	0	Adequate
Payment of Parish Precepts	1	1	0	0	0	Adequate

Summary of Planned Audits Completed: April – October 2011

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Grants						
Housing Market Renewal Pathfinder Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Local Ambition Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Growth Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Stroke Usage Grant	n/a	n/a	n/a	n/a	n/a	Adequate
ICT Audit						
Data Back Up and Storage	5	5	0	0	0	Adequate
Domiciliary Carers and Warden Service Web Rostering System	2	2	0	0	0	Adequate
File Controls - EDRMS	7	Awaiting Reply	Awaiting Reply	0	0	Adequate

* Forwarded to Overview and Scrutiny Management Board for consideration

Summary of Internal Audit Responsive Work: April – October 2011

Description
<u>Chief Executive's Directorate / Corporate</u>
Certification of 'Timely Information to Citizens' Grant Claim.
Advice provided on financial administration of Mayor's Charity in accordance with Charity Commission guidelines and 'best practice'.
Advice provided to ICT client function regarding the risks / control implications of using a 'cloud' based solution to support the Electronic Data Records Management System (EDRMS).
Investigation into allegations of grant paid to a third sector organisation and use of the grant.
Advice provided to the Community Engagement Team regarding the adequacy of monitoring arrangements surrounding payments to community groups.
Advice provided to the Commissioning Team regarding the Council's right of access to the accounting records of a contractor.
<u>Children and Young People Services Directorate</u>
Investigation into alleged irregularities in the administration of childcare income at a primary school (see above 7.4).
Advice provided regarding investigation of alleged financial irregularities and the strengthening of procedures at a children's home (see 7.4 above).
Compilation of response to a Freedom of Information request regarding payments made to the Common Purpose organisation in respect of the 'Your Turn' programme.
Advice provided to a primary school on the requirements of Financial Regulations for Schools and the Fair Funding Scheme in respect of lease agreements.
Advice provided to a children's centre regarding payments made to families in need on behalf of a charity.
Advice provided to a comprehensive school regarding correct procedures governing the payment, in exceptional circumstances, of pro-forma invoices.
Advice provided to a primary school regarding correct procedures for making an ex-gratia payment to a member of staff whose car was vandalised whilst on official business.
Provided assistance with an investigation into a complaint made against the Extended Learning Services Section by a member of the public (see 7.4 above)
Advice to a comprehensive school regarding best practice in procurement processes.
Advice provided in respect of the use of direct debits by schools with bank accounts.
Investigation into allegations of non compliance with competitive procurement requirements of Financial Regulations for Schools at a primary school. Allegations were not proven, but advice was provided to strengthen procedures and controls for the future.
Advice provided on security arrangements following the theft of petty cash at a children's home.

Summary of Internal Audit Responsive Work: April – October 2011

Description
Investigation into allegations that an employee at a Council children's centre was working elsewhere whilst off sick. No evidence was found to substantiate the allegations.
Advice provided to the Schools Catering Service regarding correct procedures for disposal of surplus equipment.
Advice provided to a comprehensive school regarding the procedures for accounting for VAT.
<u>Environment and Development Services Directorate</u>
Investigation into loss of car park income (see 7.4 above).
Advice provided regarding the requirements of Contract Standing Orders in relation to procurement of security services for Ulley Country Park.
Advice provided on the process for the disposal of floral displays previously used in Council buildings.
Investigation, following an anonymous 'phone call, of alleged misuse of a Council vehicle by a member of staff.
Advice provided to Asset Management on quotation / tender thresholds when dealing with aggregated value contracts.
Advice provided to Highways and Transportation regarding the competitive procurement requirements of Contract Standing Orders.
Advice provided to Parking Services regarding procedures for the refund of contract parking payments.
Advice provided to Asset Management regarding renegotiation of a contract.
Advice provided to Asset Management regarding the use of a Smartcard Security System at the new Riverside House civic offices.
Advice given regarding request for grant payment to be made in foreign currency.
Advice provided to Green Spaces to strengthen procedures following the loss of a cash float at one of the Council's urban parks.
Advice provided to Culture and Leisure regarding the disposal of assets at the Civic Theatre.
<u>Financial Services Directorate</u>
Assistance provided to colleagues from Finance to ensure that there was a complete audit trail to evidence expenditure on the 2007 floods as part of an EU audit.
Advice provided to Director of Finance regarding procedures for production of cheque payments run in light of impending move to new office accommodation.
Advice provided to Voluntary Action Rotherham regarding verification of funding to third sector organisations.
Analysis undertaken of payments made on mobile phone contracts, highlighting instances where line rentals were being paid, but call volumes were minimal or nil.

Summary of Internal Audit Responsive Work: April – October 2011

Description
Advice provided to Accountancy Services on changes to procedures for processing journals.
<u>neighbourhoods and Adult Services Directorate</u>
Advice provided regarding financial controls in light of proposed introduction of appointeeships in Adult Social Services.
Advice provided on proposed developments to the Care Assessment process within the SWIFT system.
Advice regarding NAS adaptations and quotation process.
Investigation into irregularities in the system for arranging services for disabled people through the Direct Payments system.
<u>RBT</u>
Advice provided on proposed changes to the system for making Council Tax refunds by cheque.
Advice provided to HR and Payroll on process for the recovery of a redundancy payment made to an incorrect bank account.
Advice provided with respect to a Freedom of Information Request and a benefit claimant complaint.
Advice about a proposal to carry out changes to checks currently made to verify single person discount claims.
Review of honoraria payments to staff.

Analysis of use of Audit Resources April – October 2011Analysis of use of Audit Resources

	<u>Budget</u>	<u>Profiled</u> <u>Budget</u> <u>(Periods</u> <u>1-7)</u>	<u>Actual</u>	<u>Variance</u>
Gross Days Available	3468	2023	2019	-4
Less				
Leave (Annual / Statutory / Concessionary / Other)	545	318	403	+85
Elections	10	6	5	-1
Sickness	53	31	40	+9
Service Development	0	0	41	+41
Professional Training and CPD	134	78	50	-28
Management and Review	150	88	80	-8
Admin and Clerical	120	70	86	+16
Professional Meetings	46	27	34	+7
	Less	1058	618	739
				+121
Gross Audit Days Available	2410	1405	1280	-125
Less				
2010/11 Work Brought Forward / Follow Up Work	94	55	81	+16
Review of Audit Files and Reports	160	93	65	-18
	Less	254	148	146
				-2
Net Audit Days Available for 2011 / 2012	2156	1257	1134	-123
Responsive Audits	410	239	227	-12
Planned Audits	1746	1018	907	-111

There are a number of variances between budget and actual in relation to the number of audit days available. The most significant of which are:

Analysis of use of Audit Resources April – October 2011

- Annual Leave is higher than the profiled budget at the end of period 7 because many staff use their leave entitlement during the summer months.
- Sickness absence is slightly higher than expectation, but remains low compared to the Council average.
- Time spent on Service Development and Admin and Clerical is higher than expectation, largely due to the move to Riverside House as a member of staff has been involved in supporting other areas of Financial Services with the implementation of EDRMS and Worksmart initiatives.
- Time spent on professional training is below budget. This is because a decision was made early in the financial year to place increased emphasis on low-cost “on the job” training due to the high costs associated with external professional training at a time when the Council is facing severe budget pressures.
- Time spent on the completion of 2010/11 work was slightly higher than expectation. This was largely spent on completion of the audit of fundamental financial systems on behalf of the Council’s external auditor, KPMG.
- Time spent on responsive work is slightly under budget. Whilst Internal Audit has received a large volume of responsive work during the period, it has often been possible to conclude investigations speedily by working in partnership with colleagues in directorates and from HR. In addition, by investing time in the production of the Annual Audit Plan, we have found that many areas that would have been previously classed as responsive work had already been planned for. We will need to keep this under review to ensure that our Plan is kept up to date to reflect the rapidly changing environment in which the Council currently operates.
- Time spent on planned work is slightly below budget. It is expected that this will pick up over the next few months as we start our work on the Council’s fundamental financial systems.