

**ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE**

<b>1. Meeting:</b>	<b>Audit Committee</b>
<b>2. Date:</b>	<b>13 February 2013</b>
<b>3. Title:</b>	<b>Review of Progress Against the Internal Audit Plan for Nine Months ending 31<sup>st</sup> December 2012</b>
<b>4. Directorate:</b>	<b>Resources</b>

**5. Summary.**

This report contains a summary of Internal Audit work and performance for the nine months ending 31<sup>st</sup> December 2012. It shows that the service continues to perform at a high level across all indicators.

Based upon the work undertaken in the period, we are able to confirm that the Council's control environment was adequate and was operating satisfactorily.

**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.**

## 7. Proposals and Details.

### 7.1 Background

This report summarises the main activities of the Internal Audit service for the first nine months of 2012/13. 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
- an analysis of the 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:

<b>Performance Indicator</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13 Target</b>	<b>April to December 2012</b>
Draft reports issued within 15 days of field work being completed.	90%	94%	95%	96%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	100%
Chargeable Time/Gross Time.	62%	62%	63%	63%
Audits completed within planned time.	93%	94%	95%	96%
Percentage of Audit Plan completed. **	84%	84%	85%	79%
Cost per Chargeable Day. **	£291	£271	£265	£274
Client Satisfaction Survey.	89%	100%	100%	100%

*\*\* extrapolated from performance to date*

7.2.2 Our performance against the targets agreed with Audit Committee is very good. Client satisfaction continues to be excellent and our performance in completing audits within planned time is very good. Our performance on chargeable time percentage is now on target and should increase with a reduction in annual leave and completion of the Council's fundamental financial systems audits over the final three months of the year.

7.2.3 We will not meet our target in relation to the percentage of the audit plan completed due to the departure of two Senior Auditors earlier in the year. However, we will prioritise our time towards the activities that will ensure we can give an opinion on the Council's control environment

### 7.3 Planned Audit Reports and Recommendations.

7.3.1 **Appendix A** shows the audit reports issued during the first nine months of the year. Audit findings in virtually all areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. Notwithstanding this, 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.

7.3.2 We have previously reported an overall inadequate opinion relating to the Community Care Direct Payments system where our audit highlighted insufficient checks were being undertaken leading to an increased risk that the Council could fail to detect instances where monies were not being used on their intended purpose. An action plan was subsequently agreed with management and this is being closely monitored to ensure improved procedures are implemented. We have not had to issue any further inadequate opinions since our last progress report to the Audit Committee.

### 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 310 auditor days has been spent on responsive work to date representing approximately 25% of available resources. This has increased since the last report (19%) due to a number of complex investigations being conducted over the last three months. Examples of the more significant areas examined include:-

a) Fraud investigations.

During the period Internal Audit successfully investigated two suspected frauds. In one case a sum of money has been recovered for the Council. In both cases Internal Audit produced reports setting out how controls could be strengthened. The recommendations were accepted by management and are now being implemented.

b) Community Learning: Funding to a voluntary sector organisation.

Following a whistleblowing complaint we reviewed the management of a contract with a voluntary sector organisation for the delivery of social care services which had been ongoing for several years. The review highlighted various weaknesses which have been reported to management and an action plan has been agreed to improve controls and minimise any risk of

losses.

c) Aids and Adaptations.

Management in NAS received an anonymous letter alleging that favouritism was being applied in the awarding of Aids and Adaptations contracts. Our audit found no evidence to support the allegations. However, procedural weaknesses have been identified that could lead to failure to comply with Contract Standing Orders and Financial Regulations. An action plan to address these weaknesses has been agreed with management and is now being implemented.

d) Receipt of a large amount of cash.

Internal Audit was informed by the Cashiers' service that a cash payment in excess of £10,000 had been received. In accordance with the Council's Anti Money Laundering procedures, Internal Audit reviewed the circumstances of this payment and completed an official report to the Money Laundering Reporting Officer, who at Rotherham is the Director of Audit and Asset Management. Following careful consideration, the circumstances of the payment were accepted as being reasonable and the cashier was thanked for her diligence in highlighting this transaction and referring the matter to us.

e) Allegation of manipulation of performance data by a contractor.

We carried out an investigation into an allegation that performance data had been manipulated by a contractor. We found that whilst there was some truth to the allegation, the contractor had not gained any financial advantage. As a separate matter, our investigation also identified a number of system failures within the Council that had resulted in an overpayment being made to the contractor. Discussions are now being held between the Council and the contractor to agree the exact amount of the overpayment and to arrange repayment of it.

f) Employee working elsewhere whilst on sick leave.

An allegation was received stating that an employee was working elsewhere in the town centre for a different employer whilst receiving full pay. Following our investigation and the subsequent disciplinary hearing the employee in question was dismissed.

g) Assistance to Serious Organised Crime Agency investigation.

Following a formal request by the Serious Organised Crime Agency, Internal Audit provided assistance with an investigation into money laundering.

## **7.5 Analysis of Use of Audit Resources.**

The Audit Plan presented to the Audit Committee on 25<sup>th</sup> April 2012 identified the time available for internal audit during the year, the expected number of chargeable audit days and planned usage of available time. An analysis of the actual use of audit resources compared to the profiled budget at the end of December 2012 has been undertaken and is shown at **Appendix C**.

The number of days available has reduced due to the departure of two members of staff.

## **7.6 Summary of Key Service Developments During the Period.**

We continue to work closely with our colleagues at Doncaster MBC Internal Audit to share expertise, skills and experience of specific audit work, most recently in assisting with Doncaster's annual managed payroll audit. The current contract for the provision of management of the Doncaster audit service is due to end in March 2013 and it is expected that this will be extended by mutual agreement of both parties.

## **8. Finance.**

There are no direct 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:**

*Colin Earl, Director of Internal Audit and Asset Management x22033*

*Marc Bicknell, Chief Auditor x23297*

### **Appendices:**

**Appendix A: Summary of Planned Audits Completed: April – December 2012**

**Appendix B: Summary of Internal Audit Responsive Work: April – December 2012**

**Appendix C: Analysis of Use of Audit Resources: April – December 2012**

**Summary of Planned Audits Completed: April – December 2012**

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
<b><u>Resources Directorate.</u></b>						
Annual Governance Statement	1	1	0	0	N/A	Adequate
Bring Your Own Device	1	1	0	0	N/A	Adequate
Disposal of Council Land and Property	7	7	0	0	N/A	Adequate
Public Buildings Repairs & Maintenance Contract Letting Arrangements	2	2	0	0	N/A	Adequate
YORBuild Framework Agreement Call Off Process	9	9	0	0	N/A	Adequate
Building Cleaning Service	5	5	0	0	N/A	Adequate
<b><u>Children and Young People's Services Directorate</u></b>						
Wales Primary School	11	11	0	0	N/A	Adequate
Sitwell Junior School	22	22	0	0	N/A	Adequate
Wath Central Primary School	9	9	0	0	N/A	Adequate
Swinton Fitzwilliam Primary School	8	8	0	0	N/A	Adequate
Aston Hall Junior and Infant School	12	12	0	0	N/A	Adequate
Brinsworth Manor Infant School	13	13	0	0	N/A	Adequate
Ravenfield Primary School	10	10	0	0	N/A	Adequate
Greasbrough Primary School	12	**		0	N/A	Adequate
Whiston Worrygoose Primary School	4	**		0	N/A	Adequate
St. Pius X Catholic High School	7	7	0	0	N/A	Adequate
Hill Top Special School	15	15	0	0	N/A	Adequate
Newman Special School	15	15	0	0	N/A	Adequate
Use of consultants in schools for management of construction contracts	14	14	0	0	N/A	Adequate
Schools Catering Service income collection procedures	8	8	0	0	N/A	Adequate

**Summary of Planned Audits Completed: April – December 2012**

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
NEETs Service	6	**		0	N/A	Adequate
Woodview Children's Residential Unit	9	9	0	0	N/A	Adequate
<b><u>Neighbourhoods and Adult Services Directorate</u></b>						
District Heating Service	6	6	0	0	N/A	Adequate
Court of Protection	2	2	0	0	N/A	Adequate
Rothercare	4	4	0	0	N/A	Adequate
Community Care Direct Payments	6	6	0	0	N/A	Inadequate
Learning Disability Resource Centres	7	7	0	0	N/A	Adequate
<b><u>Environment and Development Services Directorate</u></b>						
Car Parking Income	6	6	0	0	N/A	Adequate
Libraries Service	4	4	0	0	N/A	Adequate
Thrybergh Country Park	14	14	0	0	N/A	Adequate
Excess Travel Claims	4	4	0	0	N/A	Adequate

\*\* Awaiting responses to Internal Audit reports recently issued.

**Summary of Internal Audit Responsive Work: April – December 2012**

Description
<b><u>Resources Directorate</u></b>
Checks carried out on the validity of “Change to Bank Detail” requests submitted to Creditors ‘en bloc’ by the Direct Payments Manager rather than directly from the account holder.
Advice provided regarding measures to prevent and detect fraudulent claiming of Council Tax single person discount.
Review of the arrangements for the physical storage of back-up media in light of impending move to Ancillary Services Building at Bailey House.
CedAr Upgrade – Advice provided on document scanning and encryption relating to the upgrade of the Council’s general ledger and purchase ledger systems.
Advice regarding the data security implications of using personal mobile devices for business usage (Bring Your Own Device initiative).
Information Security implications of deleting Active Directory accounts and associated data after an employee has left the Authority.
Advice provided on use by the Council’s ICT service of ‘thin client’ technology.
Advice provided to Asset Management regarding competitive procurement requirements of Financial Regulations relating to quotations for the removal of asbestos from a Council building.
Advice provided regarding Windows 7 upgrade and software compatibility.
Advice regarding tablet computers including security issues and hardware options.
Advice provided regarding theft of takings from a catering establishment.
Advice provided regarding use of paying in slips.
<b><u>Children and Young People Services Directorate</u></b>
Advice provided regarding requirements for retention of data to support grant claim.
Advice provided regarding security procedures following the theft of laptops.
Advice provided to a secondary school regarding the competitive procurement Requirements of Financial Regulations for Schools.
Advice provided to schools regarding the use of debit cards.
Advice provided to schools regarding the use of cheque imprest accounts and petty cash accounts.
Advice provided to Schools Catering Service regarding the collection of meals monies and the administration of free school meals entitlements.
On-going work following allegations that work had been issued to a former employee who had set up their own business, without following the competitive procurement requirements of Contract Standing Orders.
Advice provided regarding the administration arrangements for the Troubled Families Grant.
Investigation of unaccounted for monies from a cheque book / pass book account.
Ongoing investigation into allegations of improper use of the budget at a children’s centre.
Advice provided following the loss of a small amount of petty cash at a children’s home.
Advice provided regarding the use of tablet computers in schools.



**Summary of Internal Audit Responsive Work: April – December 2012**

<b>Description</b>
<b><u>Environment and Development Services Directorate</u></b>
Investigation into apparent shortfalls on car parking machines. The cause of the apparent shortfalls was the jamming of the machine and all income due was fully accounted for.
Advice provided regarding the competitive procurement requirements of Financial Regulations and Contract Standing Orders regarding work to be done on land owned by the Canals and Rivers Trust.
Advice provided to Cashiers' Services regarding the use of the secure deposit box for members of public to leave cheques rather than queuing at the Cashiers' counter.
Advice provided regarding procedures for the collection of income at Urban Parks.
Advice provided to the Country Parks Service regarding the use of car parking machines.
Investigation of an employee alleged to be working elsewhere whilst receiving sick pay from the Council.
Certification of Bus Service Operators Grant.
Investigation of missing income from a community library.
Advice provided regarding the disposal of a portacabin by Green Spaces department.
<b><u>Neighbourhoods and Adult Services Directorate</u></b>
Advice provided to Housing regarding the YORbuild framework agreements for construction contracts.
Advice provided to Rothercare service regarding VAT regulations and the procedures for the implementation of imprest accounts.
Review of procedures for the administration of loans through credit unions.
Information provided for NFI personalised budget pilot scheme.
Advice provided regarding VAT issues surrounding independent sector residential care for the elderly.
Investigation into allegations of favouritism in awarding contracts for aids and adaptations.

Analysis of use of Audit Resources April – December 2012Analysis of use of Audit Resources

	<u>Budget</u>	<u>Profiled Budget (Periods 1- 9)</u>	<u>Actual</u>	<u>Variance</u>	
<b>Gross Days Available</b>	<b>3344</b>	<b>2508</b>	<b>2454</b>	<b>-54</b>	
<b>Less</b>					
Vacancy	0	0	117	+117	
Leave (Annual / Statutory / Other)	551	413	507	+94	
Elections	10	8	16	+8	
Sickness	51	38	120	+82	
Service Development	20	15	0	-15	
Professional Training and CPD	100	75	19	-56	
Management and Supervision	300	225	199	-26	
Admin and Clerical	120	90	102	+12	
Professional Meetings	42	32	16	-16	
	<b>Less</b>	<b>1194</b>	<b>896</b>	<b>1096</b>	<b>+200</b>
<b>Gross Audit Days Available</b>	<b>2150</b>	<b>1612</b>	<b>1358</b>	<b>-254</b>	
<b>Less</b>					
2011/12 Work Brought Forward / Follow Up Work	119	89	103	+14	
	<b>Less</b>	<b>119</b>	<b>89</b>	<b>103</b>	<b>+14</b>
<b>Net Audit Days Available for 2012 / 2013</b>	<b>2031</b>	<b>1523</b>	<b>1255</b>	<b>-268</b>	
Responsive Audits	397	298	310	+12	
Planned Audits	1634	1225	945	-280	

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:

- The gross days available reduced by 54 days due to a member of staff moving to a term-time only contract.
- A full time member of staff left in August and a part time member in October; neither post is being filled. This has resulted in 117 lost days for the first nine months of the year, and will result in a further 93 days being lost up to the year end.
- Annual Leave is higher than the profiled budget at the end of period 9 because many members of staff use their leave entitlement during the summer months.
- We have experienced a higher than normal level of sickness absence.

**Analysis of use of Audit Resources April – December 2012**

- Time spent on professional training remains 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 2011/12 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 now slightly over budget due to a number of complex investigations being conducted over the last three months.
- Time spent on planned work is below budget, however, work is now being carried out on the Council’s fundamental financial systems, as per KPMG’s year end requirements, and as such it is expected that planned work should move back towards the budgeted total.