

ROTHERHAM BOROUGH COUNCIL - REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	12 June 2013
3.	Title:	Internal Audit Annual Report 2012/13
4.	Directorate:	Environment and Development Services

5. **Summary.**

This report provides information on the role of Internal Audit, the work undertaken by the Service during the 2012/13 financial year and the Chief Auditor's overall opinion on the Council's control environment. Based upon the work undertaken, I am able to confirm that the Council's control environment for 2012/13 was adequate and operated satisfactorily during the year.

The report also refers to the formal review of the effectiveness of Internal Audit, required to be completed in accordance with the Accounts and Audit Regulations 2011. Internal Audit has maintained high standards and met its performance targets during the year.

6. **Recommendations.**

The Audit Committee is asked:

- **To note the Internal Audit Annual Report for 2012/13, including confirmation that the Council's control environment was adequate and operated satisfactorily during the year**
- **To confirm there was an effective internal audit in place for 2012/13.**

7. Proposals and Details.

7.1 Internal Audit Annual Report.

It is a requirement of the Public Sector Internal Audit Standards that an annual report is produced by the Head of Internal Audit on the work undertaken by Internal Audit during the year. The report for 2012/13 is attached at **Appendix 1**.

The report shows that Internal Audit's Annual Plan ensured adequate coverage of all mandatory areas and reflected the main risks facing the Council, by being compiled after taking into account:

- Review of Council's risk registers;
- Review of revenue and capital budgets;
- Cumulative audit knowledge and experience of previous work undertaken;
- Review of key plans, reports and press coverage;
- Awareness of priorities identified by the Council's Strategic Directors and Service Directors;
- Knowledge of existing management and control environments, including information relating to any system changes;
- Professional judgement on the risk of fraud or error.

The report shows that audit activity was completed in approximately 78% of the planned auditable areas, including all critical work on fundamental financial systems. Detailed work completed by the team has been reported to the Audit Committee during the year and so details are not repeated here. The report provides a summary of the work done and a flavour of the main issues arising during the year.

The Chief Auditor is able to confirm that the coverage undertaken of the Council's activity by Internal Audit in the past year was sufficient to be able to state, in his opinion, that the Council's control environment for 2012/13 was adequate and operated satisfactorily during the year. This assessment also takes account of the work of the External Auditor and the result of any inspections carried out.

7.2 Review of the Effectiveness of Internal Audit.

The Accounts and Audit Regulations 2011 include a requirement for local authorities to:

"... undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control" Reg 6(3), and:

The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control..." Reg 6(4).

For the 2012/13 financial year the review of the effectiveness of the system of Internal Audit has been informed mainly by:

- The Internal Audit Annual Report;

- Customer satisfaction;
- Comments made by KPMG following its review of Internal Audit work and the Service's compliance with professional standards.

The main features from these are summarised below:

Internal Audit Annual Report

The Annual Report is referred to above and is attached at **Appendix 1**.

The report highlights that Internal Audit has managed to maintain high standards and has met its targets during the year, while making savings required by the Council to help meet its budget challenge.

Customer Satisfaction

Following the conclusion of each audit assignment, a client satisfaction questionnaire is sent to the senior manager responsible for the service area that has been audited. It is pleasing to note that in 2012/13, 100% of 'auditees' returning client satisfaction questionnaires rated the service provided by Internal Audit as good or excellent.

External Audit Review of Internal Audit

In early 2012/13, KPMG reviewed Internal Audit's work in accordance with ISA 610 (International Standard on Auditing "Using the Work of Internal Auditors") to determine whether it could place reliance on our audit of the Council's fundamental financial systems to support its audit of the Council's statutory Statement of Accounts.

KPMG stated: *"We did not identify any significant issues with Internal Audit's work and are pleased to report that we are again able to place full reliance on IA's work on the key financial systems."* KPMG went on to state: *"we saw an improvement in the clarity of internal audit's working papers compared to previous years."*

Following their latest review of internal audit work, KPMG have confirmed that: *"We have reviewed internal audit's work, and found it consistent with the Code of Practice for Internal Audit in Local Government. We were able to rely on their work where we required it, and found their working papers of a good standard."*

Conclusion

It is concluded that:

- Internal Audit has effectively planned its work and has completed sufficient work to be able to provide an opinion to the Audit Committee on the Council's internal control environment;
- Based on the planning and completion of audit work described in the Annual Report, customer feedback and review by external audit, it can be confirmed that there has been an effective internal audit during 2012/13.

The Audit Committee is asked to acknowledge the completion of this formal review and its conclusions.

8. Finance.

There are no direct financial implications arising from this report. The budget for the Internal Audit function is contained within the budget for the Resources Directorate.

9. Risks and Uncertainties.

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

10. Policy and Performance Agenda Implications.

Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives.

11. Background Papers and Consultation.

Public Sector Internal Audit Standards
Accounts and Audit Regulations, 2011
KPMG review of Internal Audit 2010
Benchmarking and survey reports

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Appendix 1: Internal Audit Annual Report 2012/13

Environment and Development Services Directorate

Internal Audit Annual Report 2012/13

1. Purpose of the Report.

1.1 The purpose of the report is to present the Chief Auditor's overall opinion on the Council's control environment, which supports the Council's Annual Governance Statement (AGS).

1.2 The report also fulfils the requirements of the Accounts and Audit (England) Regulations, 2011, for the Council to undertake an annual review of the effectiveness of Internal Audit.

2. Introduction.

2.1 The report has been prepared by the Council's Chief Auditor. The aim of the report is to provide information on the role of Internal Audit and the work undertaken during the past year.

2.2 It is not the intention of this report to attempt to give detailed information on each of the audits that have been undertaken during the year. Instead, the report provides a summary of the work done and a flavour of the main issues that have arisen.

3. Legislation Surrounding Internal Audit.

3.1 Internal Audit is a statutory requirement for all local authorities that emanates from Section 151 of the Local Government Act 1972 and more recently the Accounts and Audit (England) Regulations 2011.

3.2 Section 151 of the Local Government Act 1972 requires that every principal local authority shall put in place arrangements for the proper administration of its financial affairs and that an officer be designated responsible for this task. To comply with these requirements the Council, in common with most other authorities, has delegated this statutory responsibility to the Chief Finance Officer who, at Rotherham, is the Director of Financial Services.

3.3 The Accounts and Audit (England) Regulations 2011 require that a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control, in accordance with the proper practices in relation to internal control. Further, a principal local authority must, at least once in each year, conduct a review of the effectiveness of its internal audit function. At Rotherham, the Director of Audit and Asset Management has responsibility for ensuring the provision of an effective internal audit service. The Chief Auditor is responsible for the operational management of the service.

3.4 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that an annual report is produced by the Head of Internal Audit on the work

undertaken by Internal Audit during the year. Rotherham's annual report and opinion on the system of internal control is produced by the Chief Auditor.

3.5 Internal Audit is defined by the PSIAS as:-

“an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

3.6 In order to fulfil this requirement Internal Audit must have unrestricted coverage and access to all employees, records and assets of the Council. Additionally, it must have unrestricted access to, and the freedom to report to the Chief Executive, the Chief Finance Officer, the Monitoring Officer and Members, particularly the Audit Committee. These operational requirements are included in the Terms of Reference for Internal Audit.

4. Review of the Service.

4.1 External Audit.

In early 2012/13, KPMG reviewed Internal Audit's work in accordance with ISA 610 (International Standard on Auditing "Using the Work of Internal Auditors") to determine whether it could place reliance on our audit of the Council's fundamental financial systems to support its audit of the Council's statutory Statement of Accounts.

KPMG stated: *“We did not identify any significant issues with Internal Audit's work and are pleased to report that we are again able to place full reliance on IA's work on the key financial systems.”* KPMG went on to state: *“we saw an improvement in the clarity of internal audit's working papers compared to previous years.”*

Following their latest review of internal audit work, KPMG have confirmed that:

“We have reviewed internal audit's work, and found it consistent with the Code of Practice for Internal Audit in Local Government. We were able to rely on their work where we required it, and found their working papers of a good standard.”

4.2 Internal Audit Resources.

In order to meet its service objectives Internal Audit has an agreed budget as shown below, along with the 2012/13 service outturn costs:

2012/13 Outturn		2013/14 Budget
£000s		£000s
591	Employees	458
12	Other Expenditure	14
<u>(58)</u>	Income	<u>(52)</u>
<u>545</u>	Net Total	<u>420</u>

During the year, 2 Senior Auditors left the team to pursue their careers elsewhere and the Team's structure was reduced by a 2.5 FTE towards the end of 2012/13. This was necessary to achieve budget savings for the Council. Internal Audit now has an establishment of 10.4 FTE staff and the lowest cost base of any Local Authority Internal Audit function in South Yorkshire and West Yorkshire.

Notwithstanding this, by using a risk based approach and through careful management of its resources, Internal Audit has been able to deliver a satisfactory programme of work and meet its performance targets.

The Chief Auditor is grateful for the effort and commitment shown by the Internal Audit team to achieve a positive outcome in this context.

4.3 Performance Indicators.

A number of performance measures are maintained to review and improve the performance of the Service. Details of the last three years' actual performance and targets for 2013/14 are summarised below:-

Performance Indicator	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Target
Draft reports issued within 15 days of field work completion	90%	94%	93%	94%
% 3 star Recommendations agreed	100%	100%	100%	100%
Chargeable Time / Gross Time	62%	62%	65%	64%
Audits Completed Within Planned Time	93%	94%	93%	95%
Percentage of Audit Plan Completed	84%	84%	78% *	82%
Cost per Chargeable Day	£291	£271	£275	£265
Client Satisfaction Survey	89%	100%	100%	100%

* Due to the departure of three members of staff, two mid way through the year and one towards the end of the year, it has not been possible to complete the full programme of work as set out in the Audit Plan. However, through the application of a risk based approach it has been possible to deliver a programme of work sufficient to support the Chief Auditor's opinion on the Council's control environment and to meet the requirements of KPMG.

Otherwise this is an excellent set of results.

5. Planning Processes.

5.1 The 2012/13 plan was derived from the following sources:-

- Review of Council's risk registers;
- Review of revenue and capital budgets;
- Cumulative audit knowledge and experience of previous work undertaken;
- Review of Council plans, reports and press coverage;
- Awareness of priorities identified by the Council's Strategic Directors, Service Directors and Audit Committee members;
- Knowledge of existing management and control environments, including information relating to any system changes;
- Professional judgement as to the risk of fraud or error.

5.2 I am pleased to be able to report that I am once again satisfied that the coverage undertaken of the Council's activity by Internal Audit in the past year has been sufficient to be able to give an overall opinion on the Council's internal control environment.

6. Reporting Arrangements.

6.1 All audit assignments are subject to formal reporting to management in an appropriate format; this could take the form of a summary memorandum or a formal report. Draft reports are sent to the managers responsible for the area under review to obtain their agreement as to the factual accuracy of findings and the viability of recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to the Service Director of the service under review. Internal Audit has arrangements in place to obtain assurance that all recommendations agreed with management are subsequently implemented. Where any issue of 'fundamental concern' is identified our follow up procedures provide for us to actively revisit that issue to ensure the risk has been adequately mitigated.

6.2 Reports containing significant weaknesses or sensitive issues are copied to the Chief Executive, Director of Financial Services or Director of Legal and Democratic Services as deemed appropriate, dependent on the nature of the issues involved.

7. Summary of Findings from Audit Reviews.

7.1 Internal Audit Opinion

Internal Audit provides an 'opinion' on the control environment for all systems or services which are subject to audit review. An 'inadequate' opinion is given where one or more concerns of a 'fundamental' nature are identified in the area under examination. Where this occurs the issue is drawn to the attention of the Risk and Governance Manager for consideration for inclusion in the Council's Annual Governance Statement. A full list of Planned Audits carried out during 2012/2013 can be found at **Appendix A**.

7.2 Fundamental Financial Systems.

As part of the Annual Audit Plan, Internal Audit undertakes a programme of reviews of the fundamental financial systems of the Council. The work in these areas is examined by the Council's External Auditors, who seek to place reliance on this work to assist their own audit of the Council's statutory Statement of Accounts. This helps to reduce the audit fees paid by the Council to KPMG.

All fundamental systems were found to be sound and operating effectively, as shown in the table below:-

System	Conclusion / Findings
Council Tax	The overall control environment was found to be adequate and operating satisfactorily. No significant weaknesses were identified and no recommendations were made.
NNDR	The overall control environment was found to be adequate and operating satisfactorily. No significant weaknesses were identified and no recommendations were made.
Creditor Payments	The overall control environment was found to be adequate and operating satisfactorily. Recommendations were made to strengthen arrangements including compliance with the Council's ICT policy on password control for accessing systems, retaining evidence of the performance of control account reconciliations and improving procedures to ensure copy invoices are not passed for payment.
Housing and Council Tax Benefits	The overall control environment was found to be adequate and operating satisfactorily. Recommendations have been made to strengthen arrangements for the production and review of exception reports.
Payroll	The overall control environment was found to be adequate and operating satisfactorily. Recommendations were made to strengthen arrangements for processing amendments to pay and ensuring compliance with the Council's ICT policy on password control for accessing systems.
Housing Rents	The overall control environment was found to be adequate and operating satisfactorily. Recommendations were made to review controls around access to systems, verify qualifying years for Right to Buy discount calculations and ensure prompt clearance of the Housing Rents suspense account.
Sundry Debtors	The overall control environment was found to be adequate and operating satisfactorily. A recommendation has been made to ensure that progress made in improving debt recovery by Legal Services continues into 2013/14 and beyond.

7.3 Other Planned Audits With Significant Issues Arising.

Direct Payments.

We reported an overall inadequate opinion in one area during the year. This was relating to the Community Care Direct Payments system. Direct Payments are made to people who have been assessed as needing Social Services support, but who have chosen to arrange their own care instead of receiving this from a local authority provided or commissioned service. The audit highlighted that insufficient checks were being undertaken on how Direct Payments are expended by service users and, as a result, there is an increased risk that the Council could fail to detect instances where monies were not being used on their intended purpose. An Action Plan has been agreed with management that will be monitored closely to ensure improved procedures are implemented.

7.4 Responsive Work.

Approximately 21% of Internal Audit time was used to address issues which arose during the year that had not been provided for in the original Audit Plan. This work can be sub-divided into two categories:-

7.4.1 Investigative work:- This is where some form of non-compliance with Council policies and procedures (Standing Orders/Financial Regulations/Codes of Conduct etc), including potential fraud or other irregularity, is suspected. Investigations of this type are, by their nature, time consuming because of the need for attention to detail and accurate recording on the understanding that the evidence could be used in formal disciplinary hearings or by the Police in any subsequent prosecutions.

7.4.2 Requests for assistance/advice: – There are a number of factors affecting the level of requests for assistance, including:

- Greater awareness within the Council of the need to ensure that systems and procedures are operating in accordance with Council policies and regulations.
- Modernising of systems inevitably leads to change and managers across the Council recognise the value of obtaining Internal Audit advice when implementing change.
- The policy of Internal Audit is to respond positively to requests for advice/assistance on the basis that this should help to ensure that systems and procedures are operating in accordance with Council policies and regulations. It is felt this policy provides an “added value” function corporately to Council services.
- Previous advice and assistance provided by Internal Audit has been appreciated by clients and, therefore, encourages involvement and discussion on any future issues that emerge.

7.4.3 Previous benchmarking exercises have suggested that the Council has a strong overall control environment and as a result appears to have a lower level of reported irregularities than other authorities of a similar size / range of services. Nonetheless, various issues arose during the

year that required audit attention and details of the work carried out and outcomes have been provided in updates given to the Audit Committee during the year. Examples of the type of reviews carried out include:

- Investigations into cash income discrepancies at two community libraries, which resulted in monies being recovered and the resignation of a member of staff.
- Investigation into allegations of favouritism in the awarding contracts for aids and adaptations.
- Investigation into an employee working elsewhere whilst claiming sickness pay from the Council.
- Advice provided regarding framework agreements for construction contracts.
- Provision of information to the Serious Organised Crime Agency in relation to an investigation they were conducting which involved an RMBC employee.
- Investigation of an allegation that a contractor to the Council was manipulating performance data.

8. Management Response to Audit Reports.

8.1 The steps involved in carrying out audits, issuing audit reports and monitoring of management responses are as follows:-

- Audit is carried out and draft report issued.
- Draft report and action plan to address recommendations is discussed and agreed with client.
- Final report and action plan is issued formally.
- Client is asked to respond within 30 days as per Financial Regulations.
- Failure to respond within 6 weeks results in the issuing of reminder(s) and escalation with the Authority's line management structure.
- Where the failure to respond is protracted, a report can be taken to Strategic Leadership Team and Audit Committee.

8.2 Currently there are no significant issues where responses are outstanding or giving cause for concern.

9. Assessment of the Control Environment for Year to 31st March 2013.

9.1 Based upon the audit work undertaken it has been possible to produce a summary assessment of the Council's overall control environment. This assessment takes account also of the work of the External Auditor as reported to the Audit Committee in April 2013.

9.2 Based upon the Internal Audit work undertaken this year, and placing reliance upon the work of the External Auditor, we can confirm that the Council's control environment for 2012/13 was adequate and operated satisfactorily during the year. A small number of items have been highlighted which do cause some Internal Audit concern. These have been brought to management's attention and Internal Audit will continue to monitor management actions to improve these areas. They do not change the overall opinion.

APPENDIX A

Planned Audits 2012/13

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>Resources Directorate / Corporate</u>						
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 and 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
Use of Council Mobile Phones	8	8	0	0	N/A	Adequate
<u>Children and Young People's Services Directorate</u>						
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	12	0	0	N/A	Adequate
Whiston Worrygoose Primary School	4	4	0	0	N/A	Adequate
Laughton All Saints C of E Primary School	7	7	0	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	8	8	0	0	N/A	Adequate
NEETs Service	6	6	0	0	N/A	Adequate

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Children's Residential Homes	9	9	0	0	N/A	Adequate
Thorpe Hesley Infant School	19	19	0	0	N/A	Adequate
Fostering and Residence Order Allowances	3	3	0	0	N/A	Adequate
The Alternative Resource Centre Pupil Referral Unit	7	7	0	0	N/A	Adequate
Riverside Pupil Referral Unit	9	**	**	0	N/A	Adequate
<u>Neighbourhoods and Adult Services Directorate</u>						
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
Aids and Adaptations	13	13	0	0	N/A	Adequate
<u>Environment and Development Services Directorate</u>						
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
Streetworks and Enforcement Income	9	9	0	0	N/A	Adequate
Clifton Park Museum and Café	2	2	0	0	N/A	Adequate
Excess Travel Claims	4	4	0	0	N/A	Adequate
<u>Fundamental Financial Systems</u>						
Council Tax	0	0	0	0	N/A	Adequate
Sundry Debtors	2	2	0	0	N/A	Adequate
Creditors	5	**	**	0	N/A	Adequate
Payroll	3	**	**	0	N/A	Adequate
Housing and Council Tax Benefits	3	**	**	0	N/A	Adequate
Housing Rents	3	3	0	0	N/A	Adequate
National Non Domestic Rates	0	0	0	0	N/A	Adequate
<u>Grants</u>						
MARE	N/A	N/A	N/A	N/A	N/A	N/A
LOGASNET	N/A	N/A	N/A	N/A	N/A	N/A
Troubled Families	N/A	N/A	N/A	N/A	N/A	N/A
Bus Service Operators	N/A	N/A	N/A	N/A	N/A	N/A

** Awaiting Reply