

## ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

<b>1. Meeting:</b>	<b>Audit Committee</b>
<b>2. Date:</b>	<b>25<sup>th</sup> September 2013</b>
<b>3. Title:</b>	<b>Review of Progress Against the Internal Audit Plan for the five months ending 31<sup>st</sup> August 2013</b>
<b>4. Directorate:</b>	<b>Environment and Development Services</b>

### **5. Summary.**

This report contains a summary of Internal Audit work and performance for the five months ending 31<sup>st</sup> August 2013. The report shows that the service continues to perform at a high level across all indicators.

Like many services within the Council, Internal Audit is diminishing in size. However, by using a risk based approach to planning and efficient management of our resources, we expect to be able to fulfil our statutory responsibilities to give an opinion on the Council's internal control environment and to complete the work on fundamental accounting systems expected by the external auditor for the 2013/14 financial year.

Based upon the work undertaken in the period, we were 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 five months of 2013/14. 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/opinion 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 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>2011/12 Actual</b>	<b>2012/13 Actual</b>	<b>2013/14 Target</b>	<b>April to Aug 2013</b>
Draft reports issued within 15 days of field work being completed.	94%	93%	95%	100%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	100%
Chargeable Time/Gross Time.	62%	65%	63%	63%
Audits completed within planned time.	94%	93%	95%	90%
Percentage of Audit Plan completed.	84%	78%	85%	90%*
Cost per Chargeable Day.	£271	£275	£265	£261
Client Satisfaction Survey.	100%	100%	100%	100%

\* extrapolated from performance to date

7.2.2 Overall our performance against the targets agreed with Audit Committee is excellent. Client satisfaction continues to be excellent, our performance on chargeable time percentage is on target and the percentage of the Audit Plan completed is ahead of target at this stage. Although our performance in completing audits within planned time is slightly below target, we do expect this position to improve by the end of the financial year.

### 7.3 Planned Audit Reports and Recommendations.

7.3.1 **Appendix A** shows the audit reports issued during the first five 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. 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 During the period no areas were identified that required us to report an inadequate opinion. However, our work did highlight some areas of significant risk, these included: -

a) EDS: Treatment of VAT.

During an audit of the Parks and Green Spaces Service we found that VAT had not been correctly accounted for on sales of food at catering facilities, which has resulted in a underpayment of VAT. Work is ongoing by the Service in conjunction with Finance, to determine the extent of the error so that corrective action can be taken in accordance with HMRC requirements. A further significant VAT error was noted during an audit of the Local Land Charges function. As a result of these errors, a Directorate wide review of VAT accounting is being undertaken by EDS management and Finance.

b) CYPS: Governance arrangements at a Children's Centre

During the audit of a Children's Centre we identified a number of significant weaknesses in the governance arrangements, particularly in respect decision making processes regarding budgetary control and a projected overspend at the Centre. We have made a number of recommendations to address these weaknesses, all of which have been agreed by management. We intend to carry out a follow up piece of work at this Centre during October/November 2013, to ensure agreed actions have been implemented and controls improved.

### 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 82 auditor days have been spent on responsive work to date representing approximately 27% of available resources. Examples of the more significant areas examined in the period include: -

a) EDS: Investigation into an overspend on a project.

Following a request from the Capital Strategy and Asset Review Team (CSART), we investigated a significant capital overspend on a contract that involved emergency repair works to one of the Council's reservoirs. We found a number of budgetary control and contract management weaknesses and a subsequent failure to comply with the Council's Financial Regulations and Contract Standing Orders. A report has been issued setting out how controls could be strengthened to avoid a recurrence. The recommendations were accepted by management and are now being implemented.

During our investigation we identified that the cost of the works had not been fully verified in accordance with the contract and as a result we found potential overpayments to the contractor. A separate report has been issued and the recommendations accepted by management with a view to investigating our findings further and recovering any overpayments.

b) CYPS: Investigation of allegation of fraudulently claimed overtime.

Following a request from HR & Payroll we conducted an investigation into an allegation that a member of staff at one of the Council's Children's Homes had been claiming for overtime shifts that had not been worked. We found insufficient evidence to indicate overtime had been claimed fraudulently. However a number of control weaknesses were found relating to the employee signing-in/attendance recording system. We have made recommendations to improve controls in this area.

c) CYPS: Investigation into missing cash.

Following a request from CYPS management we conducted an investigation at an Academy School into an amount of dinner money belonging to the RMBC Schools Catering Service that had gone missing whilst in transit from the kitchen to the administration office. All staff involved in cash handling were interviewed, although one member of staff went off sick prior to interview and refused further invitations to be interviewed. The same member of staff subsequently resigned their employment. We are currently undertaking an audit of income collection and reconciliation procedures within the Schools Catering Service.

d) CYPS: Investigation into allegations of financial issues at a secondary school, raised by a whistle-blower.

Internal Audit investigated the veracity of financial issues at a secondary school that were raised by a whistle-blower under the Confidential Reporting Code. The audit also examined whether there were any other issues of significance that were not included in the confidential report. The report made recommendations to address

those issues arising that were confirmed by the audit, these being principally that income was paid into the Private School Fund, instead of properly being paid into the school's Delegated Budget.

- e) CYPS: Investigation into accusations of inappropriate use of funds by a secondary school, raised by anonymous letter.

Following the publication of an article in the *Rotherham Advertiser*, the authority received anonymous letters containing accusations that a secondary school's school funds had been used to buy gifts for school staff and purchase goods for the personal use of the Head Teacher. Our work confirmed that purchases were made to reward staff for good OFSTED inspection and exam results. The conclusion was that in the absence of a written constitution it was not possible to form an opinion as to whether this expenditure was consistent with the objectives or purposes of the fund and as a consequence the school may have inadvertently exposed itself to reputational risk. During the audit it was noted that a significant sum of money generated from letting the school's sports facilities, was paid into the Private School Fund, instead of properly being paid into the school's Delegated Budget. Internal Audit made recommendations to address the issues.

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

The Audit Plan presented to the Audit Committee on 24<sup>th</sup> April 2013 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 August 2013 has been undertaken and is shown at **Appendix C**.

There are no significant variances from budget.

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

Following the renewal of the two-year contract to provide management of Doncaster MBC's Internal Audit service (from April 2013 to March 2015), we continue to work closely with our colleagues at Doncaster MBC to share our expertise, skills and experience of specific audit work. This arrangement currently generates £35,000 annual income to the Authority.

A member of our team is making progress towards achievement of the CIPFA professional finance and accountancy qualification. She has recently obtained a very good pass in the Financial Reporting paper.

### **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:**

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*Marc Bicknell, Chief Auditor x23297*

**Appendices:**

**Appendix A: Summary of Planned Audits Completed: Apr – Aug 2013**

**Appendix B: Summary of Internal Audit Responsive Work: Apr – Aug 2013**

**Appendix C: Analysis of Use of Audit Resources: Apr – Aug 2013**

**Summary of Planned Audits Completed: April – August 2013**

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>						
Carbon Reduction Scheme	1	1	0	0	n/a	Adequate
Logas Net	n/a	n/a	n/a	n/a	n/a	n/a
<b><u>ICT</u></b>						
Application Controls	8	*	*	0	n/a	Adequate
<b><u>Children and Young People's Services Directorate</u></b>						
Aston Fence Primary School	8	8	0	0	n/a	Adequate
Aughton Primary School	8	8	0	0	n/a	Adequate
Thorpe Hesley Junior School	14	14	0	0	n/a	Adequate
Woodsetts Primary School	30	*	*	0	n/a	Adequate
Ferham Primary School	18	*	*	0	n/a	Adequate
Brampton Ellis Infant School	15	*	*	0	n/a	Adequate
Winterhill Private School Fund	4	4	0	0	n/a	Adequate
Troubled Families Grant	0	0	0	0	n/a	Adequate
Children's Social Care: North Locality Team	7	*	*	0	n/a	Adequate
Fostering and Adoption Service: Imprest Accounts	7	7	0	0	n/a	Adequate
Rawmarsh Children's Centre	24	24	0	0	n/a	Adequate
<b><u>Neighbourhoods and Adult Services Directorate</u></b>						
*Older People Social Care (Independent Sector)*	11	*	*	0	n/a	Adequate
<b><u>Environment and Development Services Directorate</u></b>						
Civic Theatre	10	*	*	0	n/a	Adequate
Local Land Charges	7	7	0	0	n/a	Adequate
Business Centres	1	1	0	0	n/a	Adequate
Bus Service Operators Grant	0	0	0	0	n/a	Adequate
BDAR Waste PFI	0	0	0	0	n/a	Adequate
Thrybergh Country Park	10	*	*	0	n/a	Adequate
Clifton Park	11	*	*	0	n/a	Adequate
Markets Income	*	*	*	0	n/a	Adequate
AFS Fire and Security Contract	2	2	0	0	n/a	Adequate
<b><u>Contracts</u></b>						
EDS Design and Projects Team Final Accounts Processes: Rawmarsh Joint Service Centre Wentworth Primary School Swinton Queen Primary School Thrybergh Primary School New Kitchen	9	9	0	0	n/a	Adequate
<b><u>Fundamental Systems</u></b>						
Creditors System	6	6	0	0	n/a	Adequate

\* Awaiting Responses to Internal Audit Report.

**Summary of Internal Audit Responsive Work: April – August 2013**

Description
<b><u>Resources Directorate</u></b>
Advice provided on the competitive procurement requirements of Contract Standing Orders regarding the award of contracts to 'in house' providers.
Assisted Financial Services in issuing taxation guidance to managers when assessing the 'employment status' of contractors.
Advice provided on the payment arrangements regarding the Fund for Change scheme.
Advice provided on the disposal of obsolete Council paying-in books and general guidance on the Council's 'Retention of Data' policy.
<b><u>Children and Young People Services Directorate</u></b>
Investigation into an allegation of fraudulent claims for overtime by an employee at a Children's Home [see also 7.4 b) (i)].
Advice provided to a school that was considering the use of an auction website to buy and sell items.
Investigation into missing cash at a secondary school. [see also 7.4 b) (ii)].
<b><u>Environment and Development Services Directorate</u></b>
Investigation into the budgetary control and contract administration arrangements following a significant overspend on a project. [see also 7.4 a) (i)].
Advice and guidance provided on income reconciliation procedures.
Advice provided on a new electronic authorisation system for processing contract payments.
Investigation into the validity of additional payments to two members of staff employed at a Council depot [see also 7.4 a) (ii)].
Review of the process applied to the sale of Council-owned land, following a complaint from a member of the public.
Advice provided to ICT to assist in its review of the Council's ICT Security Policy.
Advice provided on the proposal to install cash payment machines to replace the cashiering function at several sites across the Borough.
Advice provided on on fees for the use of Herringthorpe Stadium.
Advice provided on Contract Standing Orders in respect of the procurement of temporary modular buildings and classrooms.
<b><u>Neighbourhoods and Adult Services Directorate</u></b>
Advice provided to the Commissioning Team on inclusion of a reference to the Council's Anti-Money Laundering policy in contract documentation.
Advice provided on Contract Standing Orders regarding exemption from seeking competitive tenders for external insulation of non-traditional properties.

Analysis of use of Audit Resources April – August 2013Analysis of use of Audit Resources

	<u>Budget</u> <u>2013/14</u>	<u>Profiled</u> <u>Budget</u> <u>(Periods</u> <u>1- 5)</u>	<u>Actual</u> <u>(Periods</u> <u>1 – 5)</u>	<u>Variance</u>
<b>Gross Days Available</b>	<b>2614</b>	<b>1089</b>	<b>1061</b>	<b>-28</b>
<b>Less</b>				
Vacancy	0	0	0	0
Leave (Annual / Statutory / Other)	364	152	179	+27
Elections	0	0	0	0
Sickness	73	30	62	+32
Service Development	30	13	15	+2
Professional Training and CPD	122	51	20	-31
Management and Supervision	193	80	78	-2
Admin and Clerical	60	25	36	+11
Professional Meetings	0	0	0	0
<b>Less</b>	<b>842</b>	<b>351</b>	<b>390</b>	<b>+39</b>
<b>Gross Audit Days Available</b>	<b>1772</b>	<b>738</b>	<b>671</b>	<b>-67</b>
<b>Less</b>				
2012/13 Work Brought Forward / Follow Up Work	65	27	27	0
<b>Less</b>	<b>65</b>	<b>27</b>	<b>27</b>	<b>0</b>
<b>Net Audit Days Available for 2013 / 2014</b>	<b>1707</b>	<b>711</b>	<b>644</b>	<b>-67</b>
Responsive Audits	303	126	82	-44
Planned Audits	1404	585	562	-23

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 has reduced by 28 days due to a member of staff moving to a term-time only contract. This has created a small budget saving for the Council.
- Annual Leave is higher than the profiled budget at the end of period 5 because most members of staff use their leave entitlement during the summer months. In addition two members of staff purchased an additional 5 days leave each in accordance with RMBC terms and conditions.

**Analysis of use of Audit Resources April – August 2013**

- Sickness absence is higher than expected (+32 days) mainly as a result of two instances of protracted illness, one requiring hospital treatment.
- Time spent on professional training is below budget. This follows last year's decision to place increased emphasis on low-cost "on the job" training due to the high costs associated with external professional training and the result of ongoing budget pressures.
- Time spent concluding 2012/13 work is in line with expectations. This has largely involved the completion of the audit of fundamental financial systems on behalf of the Council's external auditor, KPMG.
- Time spent on responsive work is under budget as Internal Audit has been able to quickly conclude investigations.