

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

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| 1. Meeting: | Audit Committee |
| 2. Date: | 5th February 2014 |
| 3. Title: | Review of Progress Against the Internal Audit Plan for the nine months ending 31st December 2013 |
| 4. Directorate: | Environment and Development Services |

5. Summary.

This report contains a summary of Internal Audit work and performance for the nine months ending 31st December 2013. The report shows that the service continues to perform at a high level across all indicators. One piece of work undertaken has led to the recovery of £20,000 on behalf of the Council.

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 minimum 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 nine 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:

| Performance Indicator | 2011/12 Actual | 2012/13 Actual | 2013/14 Target | April to Dec 2013 |
|---|-----------------------|-----------------------|-----------------------|--------------------------|
| Draft reports issued within 15 days of field work being completed. | 94% | 93% | 95% | 95% |
| Percentage of 3 star (fundamental control weakness) recommendations agreed. | 100% | 100% | 100% | 100% |
| Chargeable Time/Gross Time. | 62% | 65% | 63% | 62% |
| Audits completed within planned time. | 94% | 93% | 95% | 89% |
| Percentage of Audit Plan completed. | 84% | 78% | 85% | 82%* |
| Cost per Chargeable Day. | £271 | £275 | £265 | £268 |
| 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 very good. Client satisfaction continues to be excellent, our performance on chargeable time is within 1% of target and the percentage of the Audit Plan completed is 82% 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 nine months of the year. Audit work in most areas indicated that satisfactory control arrangements were in place and that these arrangements 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 Significant audit issues reported in the period included the following:

a) CYPS – Budget setting & monitoring and procurement at a secondary school

During the audit of a secondary school we identified that budget setting and monitoring arrangements were unsatisfactory and had resulted in the management reporting an inaccurate financial position during the 2012/13 year to its Governing Body. We concluded the overall control environment to be inadequate owing to the number of fundamental control weaknesses found. We have made a number of recommendations to address these weaknesses.

b) CYPS – Schools Catering Service

During a review of the Schools Catering Service we conducted a series of visits to school kitchens to evaluate the income cashing up / paying-in and reconciliation procedures in connection with the operation of a dinner money collection system.

Examination of procedures and controls in connection with the income system gave rise to a number of weaknesses including:

- the control of cash including a potential lack of separation of duties
- inadequate safe insurance
- a general absence of audit trails for transactions.

This has been reported to Education Catering Services management.

d) 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 an underpayment of VAT. A further significant VAT error was noted during an audit of the Local Land Charges function. The latest position on this is that the VAT errors highlighted by our report have been corrected and notified to HM Revenues & Customs. A review is also currently on-going to determine the extent of any similar errors within Land Charges and Parks and Green Spaces, with a view to examining the whole of EDS in due course.

7.4 Responsive Audits.

7.4.1 **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.

7.4.2 A total of 127 auditor days have 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) EDS: Investigation into an overspend on a civil engineering 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.

During our investigation we also 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. **Since our report was issued overpayments totalling £20K (incl. VAT) have been identified and repaid to the Authority by the contractor.**

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 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 the interview. The same member of staff subsequently resigned their employment.

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

Internal Audit investigated the validity of financial issues at a secondary school that were raised by a whistle-blower. The audit confirmed that income due to the delegated school budget had been wrongly paid into the voluntary school fund and that consequently VAT had not been promptly and properly accounted for and paid over to HM Revenues and Customs.

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 voluntary 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. 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. As a consequence the school had exposed itself to reputation damage. 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.

g) EDS – Investigation into cash shortfall

Following concerns raised by a senior manager over a cash shortfall, we conducted an investigation into the 'cashing-up' and banking transactions over the period concerned, including interviewing members of staff. There was insufficient evidence to indicate theft, however we have agreed with senior management a programme of improvements to procedures to minimise future risk.

h) NAS – Investigation into allegations of financial abuse

We provided assistance with an investigation being undertaken by Adult Social Services and South Yorkshire Police into allegations of financial abuse of an elderly man with learning difficulties by a carer employed by a contractor. Insufficient evidence was found to support the allegations made; however, NAS management is working with the contractor to improve controls and procedures.

7.5 Analysis of Use of Audit Resources

- 7.5.1 The Audit Plan presented to the Audit Committee on 24th 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 December 2013 has been undertaken and is shown at **Appendix C**.

7.5.2 There have been 131 days fewer than expected at this stage of the year and this is mainly due to two instances of long term sickness (one due to an operation) and the profiling of time available for term-time staff (with more days lost during April to December). The position should improve over the final quarter of the year. Only 31 days have been lost to the planned programme of work as a result of lower demand (by 100 days) for investigations and responsive work.

7.5.3 Overall, we will be able to do sufficient work to fulfil our minimum statutory requirements.

7.6 Summary of Key Service Developments During the Period

7.6.1 The following significant developments have arisen during the period:

- a) We have secured income generating work to fulfil the requirement for a 'Responsible Officer' function at Wingfield Academy, to provide assurance to Governors and the Academy on the adequacy of financial procedures and controls, based on an agreed programme of work.

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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Appendices:

Appendix A: Summary of Planned Audits Completed: Apr – Dec 2013

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

Appendix C: Analysis of Use of Audit Resources: Apr – Dec 2013

Summary of Planned Audits Completed: April – December 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 |
|---|---------------------|-----------------------|----------|-------------------------|---------------------------|------------------------------|
| <u>Resources Directorate.</u> | | | | | | |
| Carbon Reduction Scheme | 1 | 1 | 0 | 0 | n/a | Adequate |
| Members' Allowances and Expenses | 2 | * | * | 0 | 0 | Adequate |
| <u>ICT</u> | | | | | | |
| Application Controls | 5 | * | * | 0 | n/a | Adequate |
| <u>Children and Young People's Services Directorate</u> | | | | | | |
| 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 | 28 | * | * | 0 | n/a | Adequate |
| Ferham Primary School | 20 | 20 | 0 | 0 | n/a | Adequate |
| Brampton Ellis Infant School | 15 | 15 | 0 | 0 | n/a | Adequate |
| Winterhill Private School Fund | 4 | 4 | 0 | 0 | n/a | Adequate |
| St Ann's Primary School | 24 | 24 | 0 | 0 | n/a | Adequate |
| Bramley Grange Primary School | 20 | 20 | 0 | 0 | n/a | Adequate |
| Troubled Families Grant | n/a | n/a | n/a | n/a | n/a | Adequate |
| Wingfield Responsible Officer | 4 | ** | ** | 0 | n/a | Adequate |
| Cherry Tree House Children's Home Liberty House Respite Centre | 9 | ** | ** | 0 | n/a | Adequate |
| Schools Catering Service | 23 | ** | ** | 0 | n/a | Inadequate |
| Children's Social Care: North Locality Team | 8 | 8 | 0 | 0 | n/a | Adequate |
| Fostering and Adoption Service: Imprest Accounts | 7 | 7 | 0 | 0 | n/a | Adequate |
| Rawmarsh Children's Centre | 5 | * | * | 0 | n/a | Adequate |
| Wath Victoria Children's Centre | 9 | ** | ** | 0 | n/a | Adequate |
| Wath Comprehensive School | 12 | * | * | 0 | n/a | Inadequate |
| <u>Neighbourhoods and Adult Services Directorate</u> | | | | | | |
| Provision of Adult Social Care for the Elderly (Independent Sector) | 11 | * | * | 0 | n/a | Adequate |
| Licensing Income | 8 | * | * | 0 | n/a | Adequate |
| Supporting People | 1 | * | * | 0 | n/a | Adequate |
| Addison Road Day Centre | 6 | * | * | 0 | n/a | Adequate |
| <u>Environment and Development Services Directorate</u> | | | | | | |
| Civic Theatre | 10 | 10 | 0 | 0 | n/a | Adequate |
| Local Land Charges | 7 | 7 | 0 | 0 | n/a | Adequate |
| Business Centres | 1 | 1 | 0 | 0 | n/a | Adequate |

Summary of Planned Audits Completed: April – December 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 |
|--|---------------------|-----------------------|----------|-------------------------|---------------------------|------------------------------|
| Bus Service Operators Grant | n/a | n/a | n/a | n/a | n/a | Adequate |
| BDR Waste PFI | 0 | 0 | 0 | 0 | n/a | Adequate |
| Thrybergh Country Park | 10 | 10 | 0 | 0 | n/a | Adequate |
| Clifton Park | 11 | 11 | 0 | 0 | n/a | Adequate |
| Markets Income | 5 | 5 | 0 | 0 | n/a | Adequate |
| AFS Fire and Security Contract | 2 | 2 | 0 | 0 | n/a | Adequate |
| Home to School Transport | 9 | ** | ** | 0 | n/a | Adequate |
| Treatment of Waste (non-commercial) | 5 | * | * | 0 | n/a | Adequate |
| Blue Badge Scheme | 3 | * | * | 0 | n/a | Inadequate |
| <u>Contracts</u> | | | | | | |
| EDS Design and Projects Team Final Accounts System | 9 | 9 | 0 | 0 | n/a | Adequate |
| <u>Fundamental Systems</u> | | | | | | |
| Creditors System | 6 | 6 | 0 | 0 | n/a | Adequate |

* Internal Audit Report issued – Awaiting formal response.

**Draft report issued – Awaiting response

Summary of Internal Audit Responsive Work: April – December 2013

| Description |
|---|
| <u>Resources Directorate</u> |
| 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. |
| We reviewed and commented on the controls in place to process requests to make changes to a creditor's bank account details. |
| <u>Children and Young People Services Directorate</u> |
| Investigation into an allegation of fraudulent claims for overtime by an employee at a Children's Home. |
| 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. |
| Investigation into a 'Confidential Reporting' (whistle-blowing) case at a secondary school that alleged income due to the school's delegated budget had been diverted into its private fund |
| Investigation following allegations that a secondary school's funds had been used to purchase gifts for staff and goods for the personal use of the head teacher. |
| Advice provided to schools that were considering the purchase and download of 'i-tunes' for students' use. |
| Advice provided to schools regarding the payment of travel expenses to Governors. |
| <u>Environment and Development Services Directorate</u> |
| Investigation into the budgetary control and contract administration arrangements following a significant overspend on a civil engineering project and follow-up review of contract payments. |
| 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. |
| 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 fees for the use of Herringthorpe Stadium. |
| Advice provided on Contract Standing Orders in respect of the procurement of temporary modular buildings and classrooms. |
| Investigate concerns into a shortfall of cash identified during the routine 'cashing-up' and banking process |
| Advice provided on disposal of assets to ensure compliance with Financial Regulations |

Summary of Internal Audit Responsive Work: April – December 2013

| Description |
|--|
| <u>Neighbourhoods and Adult Services Directorate</u> |
| 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. |
| Assistance with an investigation by Adult Social Services and South Yorkshire Police into allegations of financial abuse of an elderly man with learning difficulties by a carer employed by a contractor. |
| Advice provided to the Corporate Procurement Team on the tender documentation and tender evaluation model for the re-tender of the corporate cash collection contract. |

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

| | <u>Budget</u> <u>2013/14</u> | <u>Profiled</u> <u>Budget</u> <u>(Periods</u> <u>1- 9)</u> | <u>Actual</u> <u>(Periods</u> <u>1 – 9)</u> | <u>Variance</u> |
|---|---------------------------------|---|---|-----------------|
| Gross Days Available | 2614 | 1961 | 1894 | -67 |
| Less | | | | |
| Vacancy | 0 | 0 | 0 | 0 |
| Leave (Annual / Statutory / Other) | 364 | 273 | 312 | +39 |
| Elections | 0 | 0 | 0 | 0 |
| Sickness | 73 | 55 | 107 | +52 |
| Service Development | 30 | 23 | 31 | +8 |
| Professional Training and CPD | 122 | 92 | 46 | -46 |
| Management and Supervision | 193 | 145 | 151 | +6 |
| Admin and Clerical | 60 | 45 | 72 | +27 |
| Professional Meetings | 0 | 0 | 0 | 0 |
| Less | 842 | 633 | 719 | +86 |
| Gross Audit Days Available | 1772 | 1328 | 1175 | -153 |
| Less | | | | |
| 2012/13 Work Brought Forward / Follow Up Work | 65 | 49 | 27 | -22 |
| Less | 65 | 49 | 27 | -22 |
| Net Audit Days Available for 2013 / 2014 | 1707 | 1279 | 1148 | -131 |
| Responsive Audits | 303 | 227 | 127 | -100 |
| Planned Audits | 1404 | 1052 | 1021 | -31 |

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 67 days due to: (i) a member of staff moving to a term-time only contract, which has created a small budget saving for the Council and (ii) another two members of staff that work 'term-time' only, having a disproportionate amount of school holidays (non-working time) during the 9 months to December 2013, than in the period Jan – Mar 2014.
- Annual Leave is higher than the profiled budget at the end of period 9 (Dec 2013) because most members of staff use most of their leave during the summer months and use further leave around Christmas. In addition three members of staff purchased additional leave (13 days in total) in accordance with RMBC terms and conditions.

Analysis of use of Audit Resources April – December 2013

- Sickness absence is higher than expected (by 52 days) mainly as a result of two instances of protracted illness, one that required 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. As a consequence there has been a need to focus on delivery of the plan and scale back training opportunities.
- Time spent on responsive work remains under budget as Internal Audit has been able to quickly conclude investigations. This also reflects the effectiveness of our risk-based planning approach that has reduced the amount of 'unexpected' requests for work.