

## ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

<b>1. Meeting:</b>	<b>Audit Committee</b>
<b>2. Date:</b>	<b>17<sup>th</sup> September 2014</b>
<b>3. Title:</b>	<b>Review of Progress Against the Internal Audit Plan for the four months ending 31<sup>st</sup> July 2014</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 four months ending 31<sup>st</sup> July 2014.

Progress on our Audit Plan is slightly below target at this stage of the year for various reasons including the voluntary severance of one member of staff, maternity leave, additional responsive work and the extended scope of some pieces of work. Management actions to bring coverage back into line are being considered.

Based upon the work we have 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 four months of 2014/15. 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>2012/13 Actual</b>	<b>2013/14 Actual</b>	<b>2014/15 Target</b>	<b>Apr to Jul 2014</b>
Draft reports issued within 15 days of field work being completed.	93%	95%	95%	92%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	100%
Chargeable Time/Gross Time.	65%	63%	63%	61%
Audits completed within planned time.	93%	95%	95%	73%
Percentage of Audit Plan completed.	78%	85%	85%	**
Cost per Chargeable Day.	£275	£265	£265	£273
Client Satisfaction Survey.	100%	100%	100%	100%

*\*\* The % of audit plan completed is a full year indicator.*

7.2.2 Progress on most indicators is close to or on target and we anticipate these will be achieved by the year end.

- 7.2.3 Exceptions at this stage are in relation to *'Audits completed within planned time'* and *'Percentage of Audit Plan completed'*. The scope on some jobs has been extended causing some jobs to be completed outside of target time. The % of audit plan completed is a full year indicator but at this stage we do not expect to achieve 85%. This is partly because of the overrun on some jobs, but also due to the voluntary severance of one member of staff, maternity leave, additional responsive work. Options for improving the performance in these areas are being considered.
- 7.2.4 It is pleasing to note that agreement of critical recommendations and client satisfaction with our service continue to be excellent.
- 7.2.5 Other factors affecting our performance to date are outlined at **Appendix C – Analysis of Use of Audit Resources**.

### **7.3 Planned Audit Reports and Recommendations.**

- 7.3.1 **Appendix A** shows the audit reports issued during the first four months of the year. Audit findings in most 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 of those areas. Implementation of Internal Audit's recommendations for improvement will reduce the Council's exposure to risks.
- 7.3.2 During the period we identified two areas that required us to report an inadequate opinion: -
- a) CYPS: Contract for school improvement activity  
The Council, via the Schools Forum, approved funding of £2.1M to commission a school company to deliver school improvement activity, including providing leadership courses to Head Teachers and other teachers. We identified that financial governance arrangements were not effective because there was a lack of clarity as to the outcomes that schools were receiving for the money spent and a lack of evidence that value for money had been secured from the arrangement.  
  
We have made a number of recommendations to improve governance arrangements, which have been agreed with CYPS Management.
- b) EDS: Highways Final Accounts Arrangements  
We found the current arrangements within EDS Streetpride for verifying non fixed-price contract costs during the currency of a contract and at final account stage to be inadequate which could expose the Council to unnecessary financial risk.  
  
We have brought this to the attention of the Strategic Director EDS and made recommendations to ensure robust 'open book' checks on costs are implemented going forward.

## 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.

Examples of the more significant areas examined in the period include: -

a) NAS: Investigation into suspected financial abuse

Following a request from the NAS Safeguarding Team, we carried out a review of the arrangements in place at a commissioned external service provider for administering the financial affairs of two service users with physical and sensory disabilities.

We identified several transactions using the clients' personal monies which we felt required further investigation by the NAS Safeguarding Team to establish the purpose and validity of the costs. This work is ongoing.

## 7.5 Analysis of Use of Audit Resources

The Audit Plan presented to the Audit Committee on 23<sup>th</sup> April 2014 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 July 2014 has been undertaken and is shown at **Appendix C**.

## 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 continues to make very good progress towards achievement of the CIPFA professional finance and accountancy qualification. She has recently obtained very good passes in the Financial Management and Audit papers.

We have also recently decided to recruit an 'Audit Apprentice'. This will be a temporary appointment for a period of twelve months and helps meet a Council priority of providing quality education and ensuring that people have opportunities to improve skills, learn and get a job. We are currently interviewing for this position and the cost of this post will be met from within the existing budget.

## 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 Audit and Asset Management x22033*

*Marc Bicknell, Chief Auditor x23297*

**Appendices:**

**Appendix A: Summary of Planned Audits Completed: Apr – Jul 2014**

**Appendix B: Summary of Internal Audit Responsive Work: Apr – Jul 2014**

**Appendix C: Analysis of Use of Audit Resources: Apr – Jul 2014**

**Summary of Planned Audits Completed: April – July 2014**

Area Audited	No. of Recs Made	No. of Recs Agreed	Variance	No. of 3* Recs Made	No. of 3* Recs Agreed	Opinion Adequate/ Inadequate
<b><u>Children and Young People's Services Directorate</u></b>						
Learners First Schools Partnership	12	*	*	2	*	Inadequate
<b><u>Neighbourhoods and Adult Services Directorate</u></b>						
Davies Court Residential Home	11	*	*	0	0	Adequate
Lord Hardy Court Residential Home	20	**	**	0	0	Adequate
<b><u>Environment and Development Services Directorate</u></b>						
Riverside House Library	4	4	0	0	0	Adequate
Customer Service Centres	3	3	0	0	0	Adequate
Riverside House Cafe	9	9	0	0	0	Adequate
Cashiers Service	3	3	0	0	0	Adequate
Commercial Property Rental Income	1	1	0	0	0	Adequate
Thrybergh Country Park	5	5	0	0	0	Adequate
Waste PFI (BDaR)	n/a	n/a	n/a	n/a	n/a	Adequate
Highways Final Accounts Arrangements	2	*	*	0	0	Inadequate
Hire of Plant and Equipment	2	**	**	0	0	Adequate
<b><u>Other</u></b>						
Annual Fraud Report	n/a	n/a	n/a	n/a	n/a	Adequate
UK PSIAS Report	n/a	n/a	n/a	n/a	n/a	Adequate
<b><u>Grants</u></b>						
Troubled Families (CYPS)	n/a	n/a	n/a	n/a	n/a	Adequate
Rotherham Active Ability (EDS)	n/a	n/a	n/a	n/a	n/a	Adequate
<b><u>Work for Outside Bodies</u></b>						
Wingfield Academy – Inventory	6	6	0	0	0	Adequate

\* Final report issued – awaiting formal response to recommendations.

\*\* Draft report issued – awaiting feedback/comments.

**Summary of Internal Audit Responsive Work: April – July 2014**

<b>Description</b>
<b><u>Children and Young People Services Directorate</u></b>
CYPS management informed Internal Audit of a data leakage incident in April 2014. We offered verbal advice in respect of how the data leakage incident might have occurred and what steps could be taken to prevent such a breach occurring again.
<b><u>Neighbourhoods and Adult Services Directorate</u></b>
We have provided assistance to the NAS Safeguarding Team to investigate the management of two service users' financial affairs by a commissioned external service provider. We identified a number of payments made from the service user's bank accounts for further investigation by the Safeguarding Team. Their investigation is ongoing.
We continue to be involved in the implementation of the new 'Integrated Housing Management System'. In this period we submitted a document to the Project Manager outlining the internal controls which would be expected in a Housing Management system. We then commenced an exercise to assess the extent of compliance with all expected internal controls.
We have undertaken further work reviewing the shared savings model applied to the two Housing Repairs and Maintenance Contracts. We are currently investigating significant variances in the savings being realised from each contract.
We provided benchmarking information to the Corporate Procurement Team on the current threshold at which contracts are procured by formal tender, by neighbouring South & West Yorkshire authorities.
<b><u>Corporate issues</u></b>
A routine periodic review of the Vodafone mobile phone contract identified high levels of usage on Directory Enquiries connections. This has resulted in high costs to the Authority, over £500 for one quarter. We have instructed Managers of the correct procedures and recommended a 'Managers Briefing' on the subject is issued to staff. We also identified a small number of instances of high personal usage. This has also been reported to the relevant line managers to follow-up.
Financial Regulations were revised, presented to and approved by Audit Committee on 30th October 2013. However minor revisions were made in April 2014 for the purpose of simplifying and rationalising, to condense the five main areas of the Regulations into three. Guidance Notes were replaced by hyperlinks to separate documents and the updated version was placed on the Council's Intranet.

Analysis of use of Audit Resources April – July 2014Analysis of use of Audit Resources

	<u>Budget</u> <u>2014/15</u>	<u>Profiled</u> <u>Budget</u> <u>(Periods</u> <u>1- 4)</u>	<u>Actual</u> <u>(Periods</u> <u>1 – 4)</u>	<u>Variance</u>
Internal Audit Establishment	2432	811	799	-12
Less – Maternity Leave	178	45	27	-18
<b>Gross Days Available</b>	<b>2254</b>	<b>766</b>	<b>772</b>	<b>+6</b>
<b>Less</b>				
Leave (Annual / Statutory / Other)	335	112	130	+18
Elections	4	4	4	0
Sickness	63	21	54	+33
Service Development	50	17	5	-12
Professional Training and CPD	100	33	13	-20
Management and Supervision	180	60	72	+12
Industrial Action	0	0	7	+7
Admin and Clerical	65	22	20	-2
<b>Less</b>	<b>797</b>	<b>269</b>	<b>305</b>	<b>+36</b>
<b>Gross Audit Days Available</b>	<b>1457</b>	<b>497</b>	<b>467</b>	<b>-30</b>
<b>Less</b>				
2013/14 Work Carried Forward / Follow Up Work	92	92	141	+49
<b>Less</b>	<b>92</b>	<b>92</b>	<b>141</b>	<b>+49</b>
<b>Net Audit Days Available for 2014/15</b>	<b>1365</b>	<b>405</b>	<b>326</b>	<b>-79</b>
Responsive Audits	221	74	36	-38
Planned Audits	1144	381	290	-91

Summary

There have been a number of variances between budgeted and actual days, the most significant of which is a reduction against the net audit days that were expected to be available during the period (i.e. by 79 days). The impact of this has been a reduction in the percentage of 'chargeable time' (i.e. time spent on audit work), which has reduced the percentage of the audit plan completed and led to an increase in our 'cost per chargeable day' (see table at 7.2). This is mainly attributable to: -



**Analysis of use of Audit Resources April – July 2014**

- Sickness absence being higher than expected (+33 days) mainly as a result of one member of staff having a protracted illness prior to commencing maternity leave.
- An increase in the time spent on work carried forward from 2013/14 (+49 days), due to the addition of two extra pieces of work at the end of last year that were not foreseen at the time of preparing the Audit Plan.
- Annual Leave is also higher than the profiled budget (+18 days) due to two members of staff commencing their main summer holiday during July.
- Unforeseen Industrial Action has also contributed to this position.

As mentioned at 7.2.2, we do expect see an improvement in this position by the end of the financial year.