

## ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

<b>1. Meeting:</b>	<b>Audit Committee</b>
<b>2. Date:</b>	<b>19<sup>th</sup> November 2014</b>
<b>3. Title:</b>	<b>Review of Progress Against the Internal Audit Plan for the six months ending 30<sup>th</sup> September 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 six months ending 30<sup>th</sup> September 2014.

Progress on our Audit Plan remains slightly below target at this stage, for various reasons which include the loss of one member of staff through voluntary severance, another on maternity leave and the extended scope on some pieces of work. Additionally, following the publication of the Jay Report in August we have devoted some time to examining the issues highlighted by it, including carrying out a specific piece of work looking at the Council's Home to School Transport contracts and assertions relating to the removal of files from the Risky Business project.

By prioritisation of our audit activity, careful management of our resources and the utilisation of additional temporary resource, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment.

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 six 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:

Performance Indicator	2012/13 Actual	2013/14 Actual	2014/15 Target	Apr to Jul 2014
Draft reports issued within 15 days of field work being completed.	93%	95%	95%	95%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	50%*
Chargeable Time/Gross Time.	65%	63%	63%	63%
Audits completed within planned time.	93%	95%	95%	72%
Percentage of Audit Plan completed.	78%	85%	85%	**
Cost per Chargeable Day.	£275	£265	£265	£273
Client Satisfaction Survey.	100%	100%	100%	100%

\* Two 3 star recommendations were made during the period and management chose not to agree with one (see 7.3.2 c)

\*\* The % of Audit Plan completed is a full year indicator and will be reported in the Annual Internal Audit Report. An estimate of what this is likely to be will be brought to the January 2015 Audit Committee.

7.2.2 Although progress has improved and some indicators are back on target, others still remain below target. However, we anticipate that these all will be largely on target by year-end.

7.2.3 Those below target at this stage relate to *'Audits completed within planned time'* and *'Percentage of Audit Plan completed'*. The scopes on a small number of jobs have been extended causing some jobs to take longer than original planned time.

The percentage of audit plan completed is a full year indicator, but at this stage we do not expect to achieve the target 85%. This is partly because of the extended scope on some jobs, but also due to the voluntary severance of one member of staff, maternity leave of another and additional audit assignments such as those emanating from the Jay Report into child sexual exploitation.

Action is being taken to prioritise our audit coverage and arrangements have been made to access extra temporary resource to assist in delivery of the Audit Plan which should improve performance by the year end. Consequently, we expect to be able to have a sufficient body of audit evidence to form an opinion on the Council's control environment and carry out the work that the Council's external auditor, KPMG, use to carry out their audit of the statutory Financial Statements.

7.2.4 It is still pleasing to note that client satisfaction with our service continues 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 six 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 three 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 in Rotherham's maintained schools. 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. These have now been agreed with EDS Management.

c) EDS: Blue Badge Scheme

We found that processes for checking to assess eligibility for the discretionary award of Blue Badges was weak and suggested the introduction of Independent Mobility Assessments. However, management has chosen not to accept our recommendation on the basis of their judgement that the cost of implementing our recommendations was too high in relation to the level of risk involved.

7.3.3 During the period, we gave an 'adequate' opinion on the majority of audits. However a few of these nevertheless identified a number of significant concerns: -

a) CYPS: Secondary School

We identified weaknesses in the school's budgetary control and governance arrangements which had resulted in the provision of inaccurate financial information to Governors. The school had also failed on a number of occasions to comply with the competitive procurement requirements of Financial Regulations for Schools in the award of contracts. We have made recommendations to address this.

b) NAS: Residential Care Home

We found that the mechanism for care home residents paying for their share of accommodation charges was inefficient and gave rise to security risk. Large amounts of cash were being withdrawn by staff from the bank accounts of residents and then stored in the care home safe before being taken by a cash collection contractor (Loomis) to be paid into the Council's bank account. Management has agreed to implement our recommendation to collect all accommodation charges by bank standing order, wherever possible.

c) EDS: Country Park (Car Parking Charges)

The Park generates approximately £¼ Million per annum as cash income from car parking charges. We found the control arrangements for income collection and reconciliation to be weak, giving rise to an increased risk that misappropriation would go undetected. We have recommended a series of measures to improve control and management has agreed to implement these.

## 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 involving 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 being progressed and concluded by NAS.

b) EDS: Car Parking Income

We were informed of two recent instances of income shortfalls (totalling £800) from one of the Council's car parking machines. Subsequent checks suggested that theft was the likely cause. A further theft was suspected after a cash box containing £600 went missing following collection. We conducted a thorough investigation to trace the transit of cash boxes from their collection from pay and display machines to delivery to, storage at and emptying and counting at Riverside House. We were unable to identify the source of these thefts. We are now working with Parking Services to strengthen the security arrangements for car parking income.

c) EDS: Cash Security – Parks

We were informed of two separate incidents of thefts of cash (totalling £2,800) from two of the Council's parks. In both cases there was insufficient evidence to identify the thief; however, we have identified weaknesses in systems and procedures for receipting and banking cash. We have made recommendations to improve security arrangements to minimise the risk of this occurring in future. These are currently being considered by management.

d) EDS: Home to School Transport (Safeguarding)

Following a request from the Chief Executive, we are in the process of examining the safeguarding arrangements in place around the provision of 'Home to School Transport' (HST). We have identified specific safeguarding risks and concerns around the wider use of taxis by various schools and other Council establishments e.g. for children's residential units for the transport of vulnerable children outside of the EDS HST contracts. This work is still ongoing.

e) EDS: Disposal/Sale of Scrap Metal

Following a whistle blowing report, we investigated an allegation that a Council employee had been taking items of obsolete Council equipment/material earmarked for disposal (i.e. scrap metal), using Council vehicles, to a local scrap metal recycling company and 'weighing-in' the metal for cash payments. HR is currently conducting investigatory interviews.

f) NAS: Maintenance of Former Landfill Sites

Following comparative information provided by a neighbouring local authority, we examined the Council's contractual arrangements for the maintenance of its former landfill sites and found the work had not been subjected to competitive tender for a number of years. We have recommended to management that the contract should be exposed to competition and opportunities for maximising potential savings through a shared framework agreement should be explored. The Corporate Procurement Team is leading this process.

h) CYPS: Risky Business

At the request of the Chief Executive, we are currently investigating allegations into the theft / disappearance of files from the Risky Business premises in 2002.

## **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 September 2014 has been undertaken and is shown at **Appendix C**.

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

We have also recently recruited an 'Audit Apprentice'. This is 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. 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:**

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*Marc Bicknell, Chief Auditor x23297*

**Appendices:**

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

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

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

**Summary of Internal Audit Work: April – Sept 2014**

**Appendix A**

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
Swinton Comprehensive School	41	41	0	0	0	Adequate
<b><u>Neighbourhoods and Adult Services Directorate</u></b>						
Davies Court Residential Home	11	11	0	0	0	Adequate
Lord Hardy Court Residential Home	20	20	0	0	0	Adequate
Parkhill Lodge Residential Home	16	**	**	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
Highways Final Accounts Arrangements	2	2	0	0	0	Inadequate
Hire of Plant and Equipment	2	2	0	0	0	Adequate
Clifton Park Museum	11	11	0	0	0	Adequate
Dinnington Business Centre	2	2	0	0	0	Adequate
Rother Valley Country Park	21	21	0	0	0	Adequate
Blue Badge Scheme	5	3	2	1	0	Inadequate
Carbon Reduction Commitment	4	**	**	0	0	Adequate
Markets Income	4	**	**	0	0	Adequate
Waste PFI (BDR)	n/a	n/a	n/a	n/a	n/a	Adequate
Civic Theatre Bar	4	4	0	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
NFI – Data preparation & submission	n/a	n/a	n/a	n/a	n/a	n/a
<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
Flood Recovery Scheme	n/a	n/a	n/a	n/a	n/a	Adequate
16-19 Bursary Grant	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
Saint Pius – Private School Fund	n/a	n/a	n/a	n/a	n/a	Adequate

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

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



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

Description
<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>
Investigation into suspected financial abuse - See 7.4 a)
Integrated Housing Management System (IHMS) – See 7.4 g)
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.
Maintenance of Former Landfill Sites – See 7.4 f)
<b><u>EDS</u></b>
Car Parking Income – See 7.4 b)
Cash Security – Parks – See 7.4 c)
Home to School Transport (Safeguarding) – See 7.4 d)
Disposal/Sale of Scrap Metal – See 7.4 e)
<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 – Sept 2014Analysis of use of Audit Resources

	<u>Budget</u> <u>2014/15</u>	<u>Profiled</u> <u>Budget</u> <u>(Periods</u> <u>1- 6)</u>	<u>Actual</u> <u>(Periods</u> <u>1 – 6)</u>	<u>Variance</u>
Internal Audit Establishment	2432	1216	1180	-36
Less – Maternity Leave	178	89	70	-19
<b>Gross Days Available</b>	<b>2254</b>	<b>1127</b>	<b>1110</b>	<b>-17</b>
<b>Less</b>				
Leave (Annual / Statutory / Other)	335	168	172	+4
Elections	4	4	4	0
Sickness	63	31	58	+27
Service Development	50	25	7	-18
Professional Training and CPD	100	50	18	-32
Management and Supervision	180	90	114	+24
Industrial Action	0	0	7	+7
Admin and Clerical	65	33	35	+2
<b>Less</b>	<b>797</b>	<b>401</b>	<b>415</b>	<b>+14</b>
<b>Gross Audit Days Available</b>	<b>1457</b>	<b>726</b>	<b>695</b>	<b>-31</b>
<b>Less</b>				
2013/14 Work Carried Forward / Follow Up Work	92	92	146	+54
<b>Less</b>	<b>92</b>	<b>92</b>	<b>146</b>	<b>+54</b>
<b>Net Audit Days Available for 2014/15</b>	<b>1365</b>	<b>634</b>	<b>549</b>	<b>-85</b>
Responsive Audits	221	111	71	-40
Planned Audits	1144	523	478	-45

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 85 days). The impact of this has been a reduction in the percentage of the audit plan completed and led to an increase in our 'cost per chargeable day' (see table at 7.2.1).

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

This is mainly attributable to: -

- A member of staff taking voluntary severance.
- A significant increase in the time spent on work carried forward from 2013/14 (+54 days), due to the addition of two extra pieces of work (one that was particularly complex and protracted) at the end of last year that were not foreseen at the time of preparing the Audit Plan.
- Sickness absence has been higher than expected (+27 days) mainly as a result of one member of staff having a protracted illness prior to commencing maternity leave.
- Unforeseen Industrial Action has also contributed to this position.

As mentioned at 7.2.2, we do expect see the position improve by the end of the financial year.