

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1. Meeting:	Audit Committee
2. Date:	18th February 2015
3. Title:	Review of Progress Against the Internal Audit Plan for the nine months ending 31st December 2014
4. Directorate:	Resources and Transformation

5. Summary.

This report contains a summary of Internal Audit work and performance for the nine months ending 31st December 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 last year, 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, assertions relating to the removal of files from the Risky Business project and the 'Key Players' Group.

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

The Corporate Governance Inspection (CGI) report has highlighted a number of fundamental weaknesses in the Council's governance arrangements. We are assessing the matters reported from an audit perspective, and at this stage the Audit Committee should note the likelihood of at least some of the matters referred to in the CGI report being referenced in our annual audit opinion.

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**
- **note the likelihood of matters raised in the Corporate Governance Inspection report being referenced in our annual audit opinion on the Council's control environment.**

7. Proposals and Details.

7.1 Background

This report summarises the main activities of the Internal Audit function for the first nine 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 Dec 2014
Draft reports issued within 15 days of field work being completed.	93%	95%	95%	91%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	50%*
Chargeable Time/Gross Time.	65%	63%	63%	62%
Audits completed within planned time.	93%	95%	95%	78%
Percentage of Audit Plan completed.	78%	85%	85%	**
Cost per Chargeable Day.	£275	£265	£275	£290
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.

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

7.2.3 Those significantly 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 originally planned. 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 largely due to a number additional audit assignments being requested following the publication of Jay Report into child sexual exploitation. Other contributing factors include; the extension of the scope on some jobs, the voluntary severance of one member of staff and maternity leave of another.

Since the last report, we have brought in additional temporary audit resource (from Dec 2014) to assist in the delivery of the Audit Plan, which should improve overall 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, expect to see when carrying 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 nine 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 and 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. We are currently undertaking further work in this area, namely; the Pool Green Roundabout Scheme and have agreed to review the final account for the A57 Improvement Scheme.

c) EDS: Blue Badge Scheme

We found that the processes for assessing eligibility for the discretionary award of Blue Badges were weak and suggested the introduction of Independent Mobility Assessments. Management has explored various options and spoken with HR regarding the potential involvement of Occupational Health; however this would generate an un-funded cost to the Authority. Owing to current budgetary constraints, management has chosen not to implement our recommendation at this time.

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 41 recommendations to address this, all of which have been agreed with the School.

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 a 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 the Council's 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. NAS management has since confirmed that the safeguarding issues have been investigated and there is no financial abuse occurring now following the investigation and actions taken. There are further matters relating to the commissioning of the service which are being addressed with the management of the service.

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 its 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 have issued a report to management and the majority of recommendations have been implemented. Works orders have been placed (to address the remaining outstanding recommendations) where building alterations are required to improve the physical security of cash within Riverside House.

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 carried out a review of security arrangements for cash held in safes at each park and made recommendations to improve security to minimise the risk of this occurring in future. All recommendations have now been agreed and implemented by management.

d) EDS: Home to School Transport (Safeguarding)

Following a request from the former Chief Executive, we have now completed a review of the safeguarding arrangements in place around the provision of 'Home to School Transport' (HST). We have identified a number of risks within the current arrangements and have recently issued a draft report to EDS management containing a number of recommendations to address these concerns and are currently awaiting a response.

e) CYPS: Transport (safeguarding)

During our work on the safeguarding aspects of the EDS Home to School Transport (HST) system, we identified a number of safeguarding risks/concerns relating to the wider use of taxis by schools, children's residential units and pupil referral units; which sits outside of the HST contracts. We have concluded that there needs to be a fundamental rethink of this type of transport provision at a corporate level and have issued a draft report to CYPS management, containing a number of recommendations.

f) 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 has now completed disciplinary interviews and the Director of Audit & Asset Management has issued a final written warning to the employee concerned. The employee has also since paid back to the Council the sum of money involved.

g) 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 has since met with NAS management and initiated the procurement process, with a view to awarding a new contract, to commence in April 2015.

h) NAS: Integrated Housing Management System (IHMS)

We continue to provide advice and assurance on the implementation of the new 'Integrated Housing Management System'. In this period

we submitted a draft report to management that raised a number of concerns regarding the imminent implementation of Phase 1 of the Project; including, the need to address emerging problems with the functionality of the existing system (OHMS), e.g. rent payments being received but failing to be posted to tenants rent accounts and discrepancies between closing and opening monthly balances.

i) 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. We have conducted a series of separate lines of enquiry with the Police, external parties (i.e. Home Office researcher) and Council officers (that worked at Risky Business during the period concerned). Our work is almost complete and will be reported to management soon. The work will also be subject to external review following a commitment by the Council.

j) EDS: Car Parks (Employee working whilst off sick)

Following an allegation that an employee was engaged in other employment whilst off sick, we undertook a series of visits to the employee's alleged other place of work and were able to confirm the allegation. We have issued a report to management and HR has invited the employee to an investigatory interview.

k) NAS – Voluntary Sector Contract

We were requested by the former Director of Audit and Asset Management to review the Council's arrangements for monitoring the funding provided to the voluntary sector to deliver services to the Voluntary and Community Sectors. We identified a number of concerns relating to the procurement and monitoring aspects of the funding and have issued reports to management.

l) CYPS: Key Players

Following the Jay Report we were tasked with determining the existence of minutes of meetings of the Key Players Group. We have located several sets of minutes and continue to investigate why these were not made available to Professor Jay and what records should have been kept by the Key Players Group. This work remains ongoing.

7.5 Analysis of Use of Audit Resources

The Audit Plan presented to the Audit Committee on 23th 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 December 2014 has been undertaken and is shown at **Appendix C**.

7.6 Summary of Key Service Developments During the Period

We have recently recruited an 'Audit Apprentice' on a temporary appointment for a period of twelve months. This also 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.

We have also recently commissioned temporary additional resource to assist in completing the audit of the Council's fundamental financial systems.

We have been successful in a recent joint bid with Doncaster MBC in securing £98k to help improve fraud detection and prevention through fraud awareness improvements and data matching exercises. The funding will be split 50:50 between the two authorities, to be used by March 2016.

We are also in the process of preparing a business case regarding a proposal to create a Corporate Fraud Team to tackle fraud across the Council.

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 – Dec 2014

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

Appendix C: Analysis of Use of Audit Resources: Apr – Dec 2014

Summary of Planned Internal Audit Work: April – Dec 2014

Area Audited	No. of Recs Made	No. of Recs Agreed	Variance	No. of 3* Recs Made	No. of 3* Recs Agreed	Audit Opinion
<u>Children and Young People's Services Directorate</u>						
Learners First Schools Partnership	12	*	*	2	*	Inadequate
Swinton Comprehensive School	41	41	0	0	0	Adequate
West Melton Primary School	10	*	*	0	0	Adequate
Meadows Children's Centre	11	11	0	0	0	Adequate
Rockingham Children's Centre	8	8	0	0	0	Adequate
<u>Neighbourhoods and Adult Services Directorate</u>						
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	16	0	0	0	Adequate
Netherfield Court Residential Home	6	6	0	0	0	Adequate
Quarry Hill Residential Home	5	*	*	0	0	Adequate
<u>Environment and Development Services Directorate</u>						
Riverside House Library	4	4	0	0	0	Adequate
Customer Service Centres	3	3	0	0	0	Adequate
Riverside House Café	13	13	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	4	0	0	0	Adequate
Markets Income	3	3	0	0	0	Adequate
Waste PFI (BDR)	n/a	n/a	n/a	n/a	n/a	Adequate
Civic Theatre	4	4	0	0	0	Adequate
<u>Fundamental Systems</u>						
Debtors	13	**	**	0	0	Adequate
Payroll	9	**	**	0	0	Adequate
<u>Other</u>						
Risks & issues arising from CSE report	n/a	n/a	n/a	n/a	n/a	n/a
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

Summary of Planned Internal Audit Work: April – Dec 2014

Area Audited	No. of Recs Made	No. of Recs Agreed	Variance	No. of 3* Recs Made	No. of 3* Recs Agreed	Audit Opinion
<u>Grants</u>						
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 (EDS)	n/a	n/a	n/a	n/a	n/a	Adequate
16-19 Bursary Grant (CYPS)	n/a	n/a	n/a	n/a	n/a	Adequate
CLUJ Project (EDS)	n/a	n/a	n/a	n/a	n/a	Adequate
<u>Fee Earning Work for Outside Bodies</u>						
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
Maltby St. Mary's Academy – Responsible Officer	1	1	0	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 – Dec 2014

Description
<u>Children and Young People Services</u>
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.
Transport (Safeguarding) – See 7.4 e)
Risky Business – See 7.4 i)
Key Players – See 7.4 l)
<u>Neighbourhoods and Adult Services</u>
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.
Investigation into suspected financial abuse - See 7.4 a)
Maintenance of Former Landfill Sites – See 7.4 g)
Integrated Housing Management System (IHMS) – See 7.4 h)
Voluntary Sector Contract - See 7.4 k)
<u>Environment and Development Services</u>
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 f)
Car Parks (Employee working whilst off sick) – See 7.4 j)
Following the relocation of a number of Council services to Bailey House, we reviewed the security arrangements for the building. There were no significant concerns and we were satisfied with the current arrangements.
<u>Corporate issues</u>
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.

Summary of Internal Audit Responsive Work: April – Dec 2014**Description**

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.

We received a request from EDS management to review the proposal to introduce a risk-based verification system for Housing Benefit claims. The process assigns a risk rating to each claim to determine the level of verification required and allows more intense verification activity to be targeted at those claims which are deemed to be at the highest risk of involving fraud and/or error. We identified a number of contractual and data protection risks and have recommended measures to improve control in these areas. Management has agreed to implement these.

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

	<u>Budget</u> <u>2014/15</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>
Internal Audit Establishment	2432	1824	1731	-93
Less – Maternity Leave	178	138	133	-5
Gross Days Available	2254	1686	1598	-88
Less				
Leave (Annual / Statutory / Other)	335	251	283	+32
Elections	4	4	7	+3
Sickness	63	47	68	+21
Service Development	50	37	11	-26
Professional Training and CPD	100	75	27	-48
Management and Supervision	180	135	161	+26
Industrial Action	0	0	7	+7
Admin and Clerical	65	49	44	-5
Less	797	598	608	+10
Gross Audit Days Available	1457	1088	990	-98
Less				
2013/14 Work Carried Forward / Follow Up Work	92	92	175	+83
Less	92	92	175	+83
Net Audit Days Available for 2014/15	1365	996	815	-181
Responsive Audits	221	166	121	-45
Planned Audits	1144	830	694	-136

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 181 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 – Dec 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 (+83 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 (+21 days) mainly as a result of one member of staff having a protracted illness prior to commencing maternity leave.
- Annual leave has also been higher than profiled (+32) owing to many staff taking extended breaks over the Christmas period.
- 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.