



Subject: Internal Audit - Quarter 2 Report 2016/17
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Cabinet Member: Cabinet Member for Finance
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1 Purpose of Report

- 1.1 This report summarises the work of the Internal Audit team during the second quarter of 2016/17.

2 Recommendations

- 2.1 Report for information.

3 Background

- 3.1 This report is to enable the Audit and Governance Committee, in accordance with their work programme and overall responsibility for governance, to scrutinise Internal Audit coverage during the second quarter of 2016/17 on all Services within the Council. The work of RBC Internal Audit is governed by the UK Public Sector Internal Audit Standards.

Alternatives considered

- 3.2 Not applicable.

4 Financial Implications

- 4.1 If Internal Audit recommendations are not implemented, the Council will be exposed to the risks set out in the relevant detailed Internal Audit reports. Internal Audit recommendations are raised as a result of weaknesses identified during reviews and therefore such identified issues impact upon compliance and governance.

5 Legal Implications

- 5.1 There are no legal implications arising from this report.

6 Personnel Implications

- 6.1 There are no personnel implications arising from this report.

7 Corporate Priorities

- 7.1 This report supports the Council's overall corporate objectives of ensuring that governance arrangements remain strong across the Council, particularly throughout this period of significant change.

8. Risk Assessment Implications

- 8.1 The only implications on risk are those issues which have been highlighted by Internal Audit during the quarter. In this regard, these risks will be mitigated by completion of the actions agreed with management and summarised within this report.

9. Equalities Impacts

9.1 Workforce Equality Impacts Assessment

There are no workforce equality issues arising from this report.

9.2 Equality/Community Impact Assessments

There are no equality/community issues arising from this report.

10. Risk Based Audit Approach

- 10.1 Internal Audit is responsible for providing an annual opinion on the internal control environment, risk management and governance processes for the Council as a whole, as set out within the Internal Audit Charter. A risk based approach is taken within individual audit reviews, embracing operational and management controls and the wider business risks. This allows an opinion to be expressed on risk identification and exposure and the adequacy of systems in place to manage those risks.
- 10.2 In each Internal Audit report Internal Audit provides a clear audit assurance opinion on how effectively risks are being managed in the area under review. These opinions are as follows:

Assurance Opinion	Explanation
Limited	A number of key risks are not managed effectively. The control systems in operation are in need of significant improvement.
Adequate	The control systems in operation are generally sound. However, opportunities exist to improve the management of some risks.
Substantial	There is a sound system of control in operation to manage risks effectively.

- 10.3 In terms of the Internal Audit follow up process to provide Members with the assurance that agreed recommendations have been implemented on a timely basis, any 'red' reports on which we can provide only limited assurance will be highlighted within section 12 of this report. These will be subject to specific discussion and challenge by Members with senior officers from the relevant Service. Thereafter, Internal Audit will perform a formal follow up audit within a six month period or sooner if the due date for completing the agreed actions is earlier and report back to the Audit and Governance Committee with our findings.
- 10.4 In terms of any 'adequate' or 'substantial' assurance opinions, all high and medium priority actions will be followed up by Internal Audit to confirm completion once the due dates have passed. Any delays in implementation will be reported to the Committee for

further consideration. If some of the recommendations have not yet been actioned, Internal Audit will request reasons for the delay and confirmation of a revised date by which the action should be completed. The current status of the implementation of audit recommendations as confirmed by formal follow up audits is highlighted within Appendix B and any key issues will be highlighted to the Members. Whilst in some cases implementation has not been achieved by the originally agreed dates, Internal Audit has received reasonable explanations to support the delays incurred and will continue to monitor progress through to the revised dates proposed by management. As such, there are no matters to bring to the attention of Members at this stage.

- 10.5 Draft reports are issued to management with the requirement that formal responses to recommendations raised are received within one month of the issue date. Internal Audit actively follows up with management via an escalation process to ensure that the reports and actions are agreed in a timely manner. At present, there are no draft reports where responses are still outstanding beyond the agreed period.

11 Planned Work Completed During Quarter Two

- 11.1 Appendix A contains the details of planned audit reviews completed during quarter two which had an 'adequate' or 'substantial' assurance opinion. Key areas for improvement are summarised for each audit with a specific focus on any agreed actions designated as high priority.

12 Audit Reviews with 'Limited' assurance opinions and Follow Up Audits

- 12.1 A number of follow up reviews to previous audit reports within a red "limited assurance" opinion are currently in progress and outcomes will be reported to Members at the next Audit and Governance Committee meeting.
- 12.2 The current status of all other follow up audits is summarised in Appendix B and there are no specific issues which need to be drawn to the attention of Members.

13 Unplanned work

13.1 Petty Cash

(Director of Adult Services)

Following allegations of misappropriation of cash within an Adult Care establishment, Internal Audit were requested to evaluate changes made by management to cash handling procedures and the overall control environment in response to the issue raised. The review also included a wider assessment to determine if any other monies had gone missing.

The review concluded that the controls in place were now more effective and accountability for cash is now much stronger. Furthermore no further issues were identified from the review.

13.2 Petty cash

(Director of Neighbourhoods)

Following the loss of some petty cash from within a Neighbourhoods establishment, Internal Audit was requested to undertake an investigation to establish the circumstances surrounding the loss. The review also examined the control environment in place in order to establish whether it is operating effectively or whether improvements can be made in order to adequately manage the risk of further misappropriation.

The review identified weaknesses in the security procedures relating to the cash float held which impaired accountability for cash and associated transactions. A number of actions were agreed, and have already been implemented, to bring controls in line with guidance within the Financial Regulations. In view of the control issues identified, it was not possible to establish accountability for the loss; however this should be possible in the future in view of the improvements made.

13.3 Savings Programme *(Various)*

Internal Audit provided input into challenging the assumptions and calculations of certain initiatives forming part of the current Savings Programme. As part of this, Internal Audit liaised directly with relevant senior management to confirm the outcomes from the review prior to the proposals being submitted to Members for consideration and approval.

13.4 Duplicate invoices *(Director of Adult Services)*

An issue was referred to Internal Audit concerning duplicate invoices being received from a supplier, as initial correspondence from management with the supplier had failed to resolve the matter. A number of invoices were “on hold” pending resolution of the matter.

The review confirmed that a number of duplicate invoices had been received over the past two years although credit notes had already been received for a number of these. Four further duplicates were identified amounting to £1,400, of which three were on hold for payment pending queries, and credit notes were then pursued to resolve these issues. Only £313 had been paid in error and the supplier was then pursued for a refund/ credit.

We note the fact that as part of routine financial processes, software is used to identify any duplicate invoices to reduce the risk of any financial loss. Invoices are subject to data matches with other transactions on a daily basis, based on specified criteria. This review confirmed that one of the duplicate invoices for this supplier had not been picked up by the system due to a technicality. However as a result of this, the criteria on which matches are processed is currently being reviewed to ensure its effectiveness is enhanced further. In addition, further testing of duplicate invoices is being included as part of the current creditors system audit, the outcomes of which will be reported to a future Audit and Governance Committee meeting.

14 Counter Fraud Team

- 14.1 A summary of the work completed by the Counter Fraud Team from April 2016 to September 2016 is set out below.

Performance

- 14.2 A total of 483 fraud referrals were received in the first half of this financial year, representing a slight decrease of 64, from the same period in 2015/16. The main sources of these referrals came from the National Fraud Initiative (NFI), the Partnership Enforcement Team, anonymous information and RBC employees. A significant number of these do not progress to formal investigation by the team as they are either passed to the DWP or closed due to apparent malicious intent or the fact that there is not enough information to progress the matter.

- 14.3 From April 2016 – September 2016 the team achieved £227,409 in additional savings and overpayments. This figure derives from successful investigations into transactions associated with a number of Service areas including Benefits, Council Tax, Business Rates, Blue Badge and Adult Care, as well as additional income from fraud financial penalties, administrative penalties and court costs.
- 14.4 75% of referrals have resulted in positive outcomes, whilst allowing for a 30% margin for malicious and unfounded allegations of fraud.
- 14.5 A total of 11 sanctions have been achieved, consisting of 5 prosecutions, 4 formal cautions and 2 fines for fraud.

National Fraud Initiative (NFI)

- 14.6 The Counter Fraud Team is one of several sections within the Council that have an important role to play in checking data matches that are received from the NFI.
- 14.7 The Team tackled a sample of the NFI Council Tax Single Person Discount matches, which are aimed at identifying fraud and error in households where customers claim a 25% discount off their Council Tax bill. The matches were sifted and checked, and then proactive visits took place, which have resulted in savings of over £30,000 being identified.
- 14.8 The Team will tackle the first NFI Council Tax Support match in January 2017, once the data has been received.
- 14.9 An additional £20,000 in overpayments has been raised from investigating the 2014/2015 NFI Housing Benefit (HB) matches with Council Tax Support (CTS) in payment. In this regard, over £43,000 had already been raised throughout 2015/16.

Partnership Enforcement Team (PET)

- 14.10 The Counter Fraud Team not only investigates cases of fraud, but also provides a wealth of advice across the Council to services and to external bodies including immigration and the police. Replies have been made to over 148 Data Protection Requests from April 2016 – September 2016, not including the work that is completed in the PET.
- 14.11 Referrals from different teams are brought to the PET weekly meeting each Monday to discuss and work on together. A combination of intelligence, skills and powers from the different enforcement agencies are used to prevent and detect fraud within the Borough. Currently the following cross-agency teams attend the weekly meeting: GMP – Organised Crime Team; Divisional Tasking Team, Rochdale BC – Children's Services; Community Cohesion & Equality; Community Safety; Fraud; Public Protection; Strategic Housing, DWP – Fraud, RBH – Enforcement, Fire Service officials.
- 14.12 The Counter Fraud Team also dealt with over 193 'police checks' on Rochdale BC systems, to help the police trace alleged offenders and absconders. In addition, a total of 12 fraud referrals have been received as a result of the PET.
- 14.13 The experienced investigators have participated in days of action and proactive visits throughout the year, which has resulted in savings being generated in respect of Council Tax, Business Rates, Housing Benefit and Council Tax Support.

15 Internal Audit Performance Measures

15.1 The table below shows actual performance as at 30 September 2016 against Internal Audit targets for the second quarter, including the actuals for 2015/16.

Performance Indicator	Actual Q2 2015/16	Actual Year 2015/16	Target Q2 2016/17	Actual Q2 2016/17
Economy				
1. Cost per Audit Day – excluding overheads	£231	£232	£269	£257
Efficiency				
2. Chargeable days per auditor (days)	191	194	184	185
3. Percentage of audit plan completed (95% for full year)	49%	96%	44%	41%
4. Percentage of draft audit reports issued within 14 days of completion of the audit	100%	100%	98%	100%
Effectiveness				
5. Percentage of recommendations accepted	100%	100%	98%	100%
6. Results of client surveys - % of marks in the top two categories (i.e. very good & good)	98%	98%	98%	100%

- 15.2 All performance indicators are ahead of target for the second quarter with the exception of the percentage of audit plan completed which is slightly behind target. This is due to the time directed towards various investigations and unplanned time during the first six months. The outcomes from this work have either been reported to Members or will be once concluded. A full assessment of the current status of the Audit Plan has now been completed at the half year stage, taking account of work still to be done and the resources available, and the Head of Internal Audit can confirm that the targeted out-turn is still achievable for the full year. This position will continue to be closely monitored and should any further concerns arise, these will be drawn to the attention of the Members.
- 15.3 The cost per audit day shows a positive variance due to ongoing high levels of time being directed towards Internal Audit work and efforts to reduce administrative time.
- 15.4 Similarly, chargeable days per auditor shows a positive variance against target due to efforts to minimise administrative time.

Background Papers	
Document	Place of Inspection
None	

Appendix A

Planned audits completed in quarter two

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Children's	Home to School SEN Transport	<p>Travel assistance is provided for pupils who, because of their complex special educational needs or physical disabilities, are unable to walk or use public transport to travel to school. Transport is provided to special schools and the pupil referral unit. Transport is provided by a mixture of private contractors and the in-house fleet. The audit focused on the cost effectiveness of the service, the effectiveness of route planning and controls over payments to passenger assistants.</p> <p>The audit provided substantial assurance that an effective service was being provided to support the statutory responsibilities of the Authority. In view of the complex needs of certain pupils it was evident that the limited provision of specialist vehicles within the private sector meant that in house provision was still necessary to ensure that all needs are met. However the possibility of longer term contracts with providers may be worth considering to encourage external providers to invest more in their specialist vehicle fleets. In terms of passenger assistants, it was identified that some payments are still made based on minimum hours which in some cases may exceed actual hours worked. Consideration may therefore be given towards adopting the system used in Bury whereby such assistants are only paid for actual hours worked.</p>	Substantial	M - 2

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Children's	Early Years Pupil Premiums (EYPP)	<p>The EYPP was introduced on 1 April 2015 to provide additional financial support to schools, nurseries and childminders with eligible children to improve the provision that disadvantaged three and four year olds receive through higher quality education and care. Providers have the freedom to decide how to make best use of this funding to support the eligible children within their care. The funding is passed through the Authority and then administered by the Free Entitlement Team. The audit assessed the Authority's approach to administering, checking eligibility and passing the funding to providers, and also assessed the procedures within schools to comply with regulations.</p> <p>The control systems in operation were assessed as being adequate although there were some opportunities to improve the management of some risks. A small number of issues were identified with processes within the Free Entitlement Team. However management confirmed that these have since been resolved through the implementation of the Rochdale Early Years Portal and as such we have not made any recommendations in this regard. There is a need to ensure that schools can demonstrate how money has been spent and how this has benefitted the children to feed into future Ofsted inspections and this is an area that can be improved upon. It was also agreed that regular reconciliations will be performed between funding allocated and actual payments made to ensure they align.</p>	Adequate	M – 1

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Children's	Stronger Families	<p>In April 2012, the Government launched the Troubled Families Programme (known locally as Stronger Families) to turn around the lives of troubled families over a 3 year period. This has since been extended for a further 5 years from 2015/16 to reach a further 400,000 families across England with £200 million being committed to fund this first year. The current Programme has been extended to families with a broader range of problems, including those affected by domestic violence and abuse, with younger children who need help and with a range of physical and mental health problems.</p> <p>For each claim that is made by the Authority, there is a requirement for this to be independently verified by Internal Audit to confirm that it meets the claim criteria. The Authority must be able to demonstrate sustained and significant progress against the relevant criteria detailed in the Greater Manchester Troubled Families Phase 2 Family Outcomes Plan. To support this aim, a co-ordinated audit approach has been developed across Greater Manchester to ensure a consistent approach to verification is adopted.</p> <p>The third claim in this Phase of £144,000 (cumulative claims of £213,600) was submitted in September 2016 and was verified by Internal Audit in accordance with the above methodology.</p>	Substantial	None

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Neighbourhoods	Discretionary Crisis Fund (DCF)	<p>Under the terms of the Welfare Reform Act, RBC established a welfare scheme known as the DCF, intended as a final safety net to provide immediate and targeted relief for members of the local community who are in the greatest need. The DCF is administered by an external provider. The audit focused on evaluating key aspects of the scheme including eligibility assessments, supporting documentation, the nature of awards given, processes for disallowed grants, data integrity and compliance with Council policy.</p> <p>The audit provided substantial assurance that Council Policy was being adhered to and that all relevant processes were effective. As such no recommendations were made.</p>	Substantial	None

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Neighbourhoods	Waste Management	<p>The audit of the waste management service focused on a number of areas including:</p> <ul style="list-style-type: none"> • Progress towards achieving expected outcomes from the Waste Management Strategy; • Progress on realising the expected saving of £1 million as a result of the new waste management arrangements and approach; • Complaints handling; • Charging mechanisms; • Management of risks; • Communication strategies to the public; • Compliance with regulations; and • Effective use of waste audits. <p>The audit concluded that substantial assurance can be given that there is a sound system of control in operation to manage risks effectively. No recommendations were considered appropriate. It is evident that the Service is on track to achieve expected savings and proposed outcomes from their Strategy. Management produce a range of monthly reports to enable monitoring and reporting of performance. All other areas subject to review were found to be effective and we note that RBC won two industry awards at the Recycling Awards 2016.</p>	Substantial	None

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Resources	Treasury Management	<p>The Treasury Management function manage the Authority’s cash flows, borrowings and investments in order to control the associated risks and to achieve a high level of performance or return consistent with those risks and to preserve capital funds. The Authority continues to commission an external company to provide credit rating information to support investment decisions and ensure investment counterparties are monitored for their security. The scope of the audit focused on:</p> <ul style="list-style-type: none"> • Compliance with Treasury Management Strategy; • Evaluating the procedures in place to support investments made and funds borrowed; • Ensuring appropriate segregation of duties is in place within the function; and • Ensuring appropriate records are maintained and effective reporting arrangements. <p>The audit concluded that the processes involved in the Treasury Management function continue to be effective and appropriate controls are in place to mitigate all key areas of risk. No audit recommendations were considered necessary. The Council operates within the Treasury Management and Prudential Code developed by CIPFA.</p>	Substantial	None

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Various	Grant Certifications	<p>Certain grants available to RBC require periodic certification to confirm that the grants have been spent in accordance with grant terms and conditions. These certifications generally require sign off by the Head of Internal Audit together with either the Chief Executive or Chief Finance Officer. During quarter two, one grant certifications was signed off in this way. This was the following:</p> <ul style="list-style-type: none"> Local Transport Capital Block Funding SGD 31/2530 <p>Internal Audit performed various independent checks to ensure that the grant certification could be signed off and no issues arose from this work.</p>	Substantial	None

Service	Audit Area	Scope of Audit and Key Areas for Improvement	Assurance Opinion	Recommendation priorities (H, M, L)
Children's Services - Schools	3 Primary Schools 1 Secondary School	<p>These comprised reviews of the schools exposure to risk using the Ofsted document "Keeping your balance", also taking account of other service areas and the extent of schools' implementation of previous recommendations.</p> <p>Holy Family RC and CE College Holy Family RC Primary Meanwood Community Nursery and Primary Middleton Parish Primary</p> <p>Three high priority recommendations were made. These relate to the following issues:</p> <ul style="list-style-type: none"> • Payments being made to staff contrary to the DfE School Teachers Pay and Conditions document; • Approvals for paid leave being granted which were contrary to the Discretionary Leave Procedure issued in November 2015; and • Not all members of the Governing Body were included in the school DBS register, thereby making it more difficult to demonstrate that they had all received appropriate clearance. <p>We can confirm that each of the above actions were implemented with immediate effect and processes are now in full compliance with regulations.</p> <p>A number of other actions were agreed to improve processes and controls including ensuring that:</p> <ul style="list-style-type: none"> • The school Finance Policy is reviewed and approved annually by Governors; • All financial procedures are formally documented and approved; • All payments made by BACS are appropriately authorised; and • Valid VAT invoices are obtained to support all relevant transactions and are subject to VAT reclamation. 	Substantial – 3 Adequate - 1	H – 3; M – 9, L – 19

Appendix B

FOLLOW UP OF OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS – STATUS AS AT 15 NOVEMBER 2016								
Report	Assurance	Service	High and Medium priority actions	Final Date for Completion	Follow up date	Actions Complete	Actions Still in Progress	Notes on Follow Up Audit
Asset Management (governance, roles & Responsibilities, Strategy and Policy)	A	Economy and Environment	10	30/09/2014				Being followed up as part of current audit on Statutory Compliance
Corporate Debt	A	Corporate	5	30/04/2015	10/11/2015	3	2	Remaining actions in progress relate to system development and policy review by HR which is due to be complete by January 2017.
Post Adoption Support	A	Children's	10	30/06/2015	21/08/2015	8	2	Follow up in progress. Awaiting response from management to confirm status.
Fostering Panel	A	Children's	25	31/07/2015	09/02/2016	11	14	Follow up being undertaken following further review of policies by 31/08/16. Awaiting response from management to confirm status.
Recharges: Green Lane Workshop	A	Neighbourhoods	10	31/01/2016		1	9	Progress made on actions but full implementation now scheduled for 30 September 2016. To be followed up in 2016/17.

Report	Assurance	Service	High and Medium priority actions	Final Date for Completion	Follow up date	Actions Complete	Actions Still in Progress	Notes on Follow Up Audit
Corporate CCTV Arrangements	A	Neighbourhoods	8	31/03/2016				Following managerial changes, all actions should be complete by 31 August 2016. Awaiting response from management to confirm status.
Events Management	A	Neighbourhoods	8	31/03/2016	23/05/2016	1	7	Revised date for implementation now set as 30 September 2016. Awaiting response from management to confirm status.
Grant Awards - Community Services	A	Neighbourhoods	12	31/03/2016				Follow up in progress. Awaiting response from management to confirm status
Corporate Back-Up and Recovery	S	Neighbourhoods	2	30/04/2016				Follow up in progress
Grant Awards - Economic Affairs	A	Economy	8	30/04/2016				Follow up in progress. Awaiting response from management to confirm status
IT Disaster Recovery & Business Continuity	A	Neighbourhoods	2	31/07/2016				Follow up in progress
Corporate Health and Safety	A	Resources	9	30/09/2016				To be followed up 2016/17

Report	Assurance	Service	High and Medium priority actions	Final Date for Completion	Follow up date	Actions Complete	Actions Still in Progress	Notes on Follow Up Audit
Controcc and other Payments	A	Adult	3	31/10/2016				To be followed up 2016/17
Connected Council Programme	A	Neighbourhoods	3	31/10/2016				To be followed up 2016/17
Procurement	S	Resources	6	31/10/2016				To be followed up 2016/17
Better Care Fund	A	Adult	3	31/10/2016				To be followed up 2016/17
Primary School	L	Children's	14	31/10/2016				To be followed up 2016/17
Financial Assessments	S	Resources	1	31/12/2016				To be followed up 2016/17
Contract Monitoring - Contact Centre	A	Neighbourhoods	3	31/03/2017				To be followed up 2017/18
Asset Management- Disposals	A	Economy	5	31/03/2017				To be followed up 2017/18