RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019/20

AUDIT COMMITTEE 15th July 2019	AGENDA ITEM NO. 5
REPORT OF THE DIRECTOR OF FINANCE & DIGITAL SERVICES	FINALISED AUDIT ASSIGNMENTS

Author: Paul Griffiths (Service Director – Finance and Improvement Services) /
    Mark Thomas (Head of Regional Internal Audit Service)

1. PURPOSE OF THE REPORT

1.1 This report provides Members with a summary of audit assignments completed between 25th May 2019 and 1st July 2019.

2. RECOMMENDATIONS

It is recommended that Members:

2.1 Seek clarity and explanation where there are areas of concern.

2.2 Identify further action to be taken where deemed necessary.

3. REASON FOR RECOMMENDATION

3.1 To help ensure that Audit Committee discharges its responsibilities in respect of reviewing the overall control environment in place across the Council.

4. BACKGROUND

4.1 The Audit Committee Terms of Reference (Point C) requires it to 'Review, scrutinise and issue reports and recommendations on the appropriateness of the Authority's risk management, internal control and corporate governance arrangements, and providing the opportunity for direct discussion with the auditor(s) on these.

4.2 In line with this requirement **Appendix 1** provides a summary of the audit assignments completed between 25th May 2019 and 1st July 2019. Members

will note that the summary provides for each assignment: the Introduction, Scope & Objectives, Auditor's stated opinion and a summary of all recommendations made for each audit review completed to final report stage within the stated period.

4.3 To help ensure Audit Committee effectively discharges the responsibility as set out in its Terms of Reference (and replicated at point 4.1 above), Members may wish to consider the principles noted below in addition to their own lines of enquiry:

- Are the conclusions made by Internal Audit reasonable / backed up by the findings reported?

- Are the recommendations made by Internal Audit likely to support the necessary improvement in internal control?

4.4 Members will note that 3 audit assignments have been finalised in the period and are set out in Table 1 below.

Table 1 – finalised audit assignments

CORPORATE & FRONTLINE SERVICES
- PENSIONS 2018/19

EDUCATION & INCLUSION SERVICES
- THEMATIC REVIEWS IN COMPREHENSIVE SCHOOLS 2018/19

PROSPERITY, DEVELOPMENT & FRONTLINE SERVICES
- MANAGEMENT OF FUEL – PARKS 2019/20

5. EQUALITY AND DIVERSITY IMPLICATIONS

5.1 There are no equality and diversity implications as a result of the recommendations set out in the report.

6. CONSULTATION

6.1 There are no consultation implications as a result of the recommendations set out in the report.

7. FINANCIAL IMPLICATION(S)

7.1   There are no financial implications as a result of the recommendations set out in the report.

8.   LEGAL IMPLICATIONS *OR* LEGISLATION CONSIDERED

8.1   The provision of regular information in respect of the Council's Internal Audit Service supports the Council in demonstrating compliance with the Accounts and Audit (Wales) (Amendment) Regulations 2018.

8.2   Regulation 7 (Internal Audit) of Part 3 of the 2018 Regulations directs that: *"A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control."*

9.   LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT

THE COUNCIL'S CORPORATE PLAN PRIORITIES
9.1   The work of Internal Audit aims to support the delivery of the priorities contained within the Council's Corporate Plan – *The Way Ahead*, in particular 'Living Within Our Means' through ensuring that appropriate internal controls are in place to effectively manage resources.

WELL-BEING OF FUTURE GENERATIONS ACT
9.2   The Sustainable Development Principles, in particular Prevention, can be applied to the systematic reviews undertaken in order to provide assurance that risks to the achievement of objectives are being managed.

10.   CONCLUSION

10.1   The regular provision of all summarised audit assignments to Audit Committee throughout the year is aimed at assisting Members in evaluating the effectiveness of Internal Audit work across all Council systems and services.

10.2   In doing so, it informs Members knowledge of the overall control environment of the Council.

Other Information:-
Relevant Scrutiny Committee
Not applicable.
Contact Officers – Paul Griffiths / Mark Thomas

RHONDDA CYNON TAF

LOCAL GOVERNMENT ACT 1972

AS AMENDED BY

THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

AUDIT COMMITTEE

15th July 2019

FINALISED AUDIT ASSIGNMENTS

REPORT OF THE DIRECTOR OF FINANCE & DIGITAL SERVICES
Author: Paul Griffiths (Service Director – Finance and Improvement Services)
         Mark Thomas (Head of Regional Internal Audit Service)

Item: 5

Background Papers

None.

Officer to contact: Paul Griffiths / Mark Thomas

Appendix 1 - Summary of audit assignments completed between 25ᵗʰ May 2019 and 1ˢᵗ July 2019

CORPORATE & FRONTLINE SERVICES
AUDIT NAME: PENSIONS 2018/19
DATE FINAL REPORT WAS ISSUED: 07/06/2019

INTRODUCTION

Rhondda Cynon Taf County Borough Council is the administering authority for the RCT Pension Fund. The Fund consists of over 40 employers ranging from the 3 unitary authorities Rhondda Cynon Taf, Merthyr Tydfil and Bridgend as well as other bodies including colleges and other employers who work closely with local government. There are approximately 69,320 members in the Fund.

The Service is also responsible for the interpretation of all pension legislation, the creation and maintenance of records, calculation and payment of benefits and the provision of information to employers, employees and other relevant bodies.   Under Member Self-Serve Access, members can now log on to the Altair portal and view data and make limited amendments to the information contained. This was initially limited to pensioners and deferred members but is being expanded to also include active members.

The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. GMP reconciliation is the process used to ensure the scheme records agree with those of the National Insurance Contribution Office (NICO, part of HMRC). This enables a scheme to consider its data as clean and accurate.

For members of the pension scheme who have to leave work due to illness, ill-health benefits may be made if the employee has met the 2 years 'vesting period' on the scheme and following a medical evaluation by an independent Occupational Health Doctor, deemed permanently unable to carry out their job. There are 3 tiers of benefit that can be awarded, based on the outcome of the medical assessment and the calculation and enhancements are based on the time of service and the tier awarded.

SCOPE & OBJECTIVES

In accordance with the Internal Audit Plan for the financial year 2018/2019 as agreed by Audit Committee, a review of the key controls within the system was undertaken.

The primary purpose of the audit review was to provide management with an opinion on the adequacy and effectiveness of the internal control system. The objectives of the review were to ensure that:

- The process for calculating ill-health calculations is appropriate, effective and accurate;
- The process for undertaking the GMP reconciliation to HMRC records is appropriate and effective; and
- The Member Self-Serve process is appropriate and secure.

AUDIT OPINION

The overall control environment in relation to the areas reviewed within Pensions is considered to be effective with opportunity for improvement.

ILL HEALTH RETIREMENTS

During 2017/18 the total number of ill-health retirements was 42. The process for calculating ill-health retirements was reviewed and a sample of 8 ill-health calculations from the financial year 2017/2018 selected, covering 4 retirements under Tier 1 and 2 retirements under Tiers 2 and 3 respectively, to ensure that the process is operating appropriately and effectively.

The review identified that 2 of the calculations were inaccurate and although the discrepancies were not significant, both calculations would need to be redone. One of the errors was as a result of 60 pence being input as 12 pence (resulting in a £1.28 lump sum error and 4p monthly pension)

For the other calculation, the software had not calculated the correct outcome. This was due to the complexity of that particular case (overall effect: £4.42 per monthly pension / arrears totalling £12.44 at the time of audit).

GUARANTEED MINIMUM PENSION PROCESS

The GMP reconciliation process was reviewed and following the work undertaken for this review, it is concluded that the process was well managed with the deadline of December 2018 being achieved.

MEMBER SELF-SERVE PROCESS

The Member Self-Serve process was reviewed and no associated recommendations were made. The verification process was assessed and found to be appropriate:

- Members are required to sign-up to activate log-on;
- Users are sent a unique activation key in the mail to their registered address;
- The activation key is only available for 60 days and once received the user logs on by inputting their National Insurance Number, Date of Birth and Activation key; and
- Changes are made in real time, with the exception of changes to bank details, which are sent to the Pensions inbox to be actioned. Members are informed that it can take up to 5 working days for these to be processed.

By implementing the associated recommendations contained within this report, Management will enhance further the standard of control.

SUMMARY OF RECOMMENDATIONS:			
REPORT REF. & PRIORITY	**FINDING**	**RECOMMENDATION**	**IMPLEMENTATION DATE**
5.1.1 Medium	The Pensions Software is developed to apply a number of complex legislative requirements and protection retrospectively within its pension calculations. It is understood that the software is subject to various scenario testing prior to the release or upgrade of any new legislative change that could impact on the pension benefit calculations.	Management should ensure that the member's benefit is recalculated using the correct enhancement and pay figures. Management should ensure that the system	Implemented

		During the audit, one case in the sample had already been referred to the software supplier by the Pension Service as the relevant protection appeared not to be calculating correctly by the system formula (resulting in an error of £4.42 to the monthly pension calculation).	error has not affected other ill-health calculations erroneously.	
		At the time of the audit the Pensions Team Leader recalculated the scenario manually applying the relevant protection, and concurred that the system was indeed not calculating this type of protection correctly, which had resulted in the pensionable service for this scheme member to be understated by 24 days. The evidence was supplied to the software supplier who subsequently agreed and undertook to rectify the necessary adjustments within the pension software.		
		It was also noted that not all the source 'salary' documentation was retained on file in this instance, which made it difficult to recreate and support the initial calculations.		
		A transposition error on another ill-health calculation was also identified (60p being input as 12p) resulting in the monthly pension amount being understated by 4p per month and the lump sum £1.28.		
5.1.2 Low		Testing established that all appropriate documents had been scanned onto Altair and named.	Staff should be reminded of the correct naming conventions.	Implemented
		A small number of instances were noted within the sample whereby the forms were incorrectly referenced. Whilst there is no impact in terms of the availability of the documents as they are stored on the system, the ability for staff to easily retrieve them based upon the naming convention in place is made more time consuming.		

EDUCATION & INCLUSION SERVICES

AUDIT NAME: THEMATIC REVIEWS IN COMPREHENSIVE SCHOOLS 2018/19

DATE FINAL REPORT WAS ISSUED: 18/06/2019

INTRODUCTION & CONTEXT

Audit reviews of the Council's schools are included within the audit plan on a cyclical basis. Comprehensive schools are visited once every three years and all other educational establishments are visited once every four years. The only exception to this cycle is when follow-up audits are required.

During 2017/18 in particular, a number of audit reports were presented to Audit Committee that resulted in Members raising strong concerns in respect of the outcomes of the work reported. In particular, concerns were prevalent under the following four areas:

- Safeguarding;
- Governance;
- Schools Private Funds; and
- Purchase Cards.

Whilst these mainly related to comprehensive schools, there were a small number of findings that related to primary and special schools. The outcomes of the work presented to Audit Committee resulted in two (summarised) recommendations from Audit Committee:

- A series of follow-up audits were requested in order for improvements to be measured; and
- Thematic reviews of the four areas of particular concern across comprehensive schools were requested to be included within the audit plan for the financial year 2018/19.

This audit report provides the outcomes of the work undertaken under the four thematic audit reviews across comprehensive schools within the audit plan for 2018/19.

SUMMARY & CONCLUSION

The work undertaken by Internal Audit during 2018/19 in respect of the four thematic areas which have caused concern has been summarised as follows:

	Effective	Effective with Opportunity for Improvement	Insufficient and requires improvement	Not Adequate
Governance	2	16		
Purchase Card	7	10	1	
Safeguarding	1	17		
School Private Fund	9	9		
Total	**19**	**52**	**1**	**0**

Given the significant concerns previously raised by Audit Committee, particularly during the 2017/18 financial year, it is concluded that improvements have been demonstrated as detailed in the above control evaluations. This is also evident as fewer requests to carry out follow up visits at schools have been made by Audit Committee compared to previous years.

Notwithstanding this positive shift, this review has identified areas for improvement and these have been summarised below. For each theme, the relevant Service Area of the Council has considered the outcomes and have committed to working with Internal Audit in order to put appropriate support arrangements in place.

SAFEGUARDING
Based upon the work undertaken, it is concluded that the overall control environment in respect of safeguarding within schools is considered to be effective with opportunity for improvement.
A summary of the positive outcomes, along with areas for improvement are as follows:
• All schools had Child Protection Policies in place although these polices were not always reviewed and ratified by respective Governing Bodies as required.
• Not all staff had signed to demonstrate that they had received, read and understood the Child Safeguarding Policy.
• All staff working in schools received the required pre-employment checks prior to commencing in post; however the lists of staff held at some schools was not always up to date.
• Schools did not always ensure supply or student teachers had been DBS checked.
• Safeguarding training was not always renewed when due nor was appropriate evidence retained on some occasions.

- Payments had been made to a small number of individuals with no prior HMRC IR35 questionnaire completed; however the number of instances has reduced compared to previous years.
- Whilst schools use the EVOLVE system to record details of off-site visits, trips / activities (including routine visits) were not always entered within the correct timescales.

GOVERNANCE

Based upon the work undertaken, it is concluded that the overall control environment in respect of governance arrangements within schools is considered to be effective with opportunity for improvement.

A summary of the positive outcomes, along with areas for improvement are as follows:
- Whilst most schools had the required Policies and Procedures in place, not all were able to demonstrate that they have been reviewed regularly, updated and ratified by their Governing Body.
- Financial Procedure documents were in place at schools, but on occasions they were not always fully up-to-date.
- Register of business interests were in place, but a small number of occasions were noted whereby they had not been reviewed or updated with new members of the governing body in a timely manner.
- Clerks to Governing Bodies did not always ensure Statutory Regulations were being adhered to in relation to meetings and the subsequent minutes for the meetings. For example: -
  o Attendance Registers for all Governing Body and Sub Committee meetings were not always completed.
  o Minutes for meetings not always signed.
  o Signed minutes not always retained at the School.
  o Inconsistent format of minutes within the same Schools.
  o Governor vacancies continue to arise.

SCHOOL PRIVATE FUNDS

The administration of School Private Funds has improved significantly compared to the outcomes of audits completed during 2017/18. Based upon the work undertaken, it is concluded that the overall control environment in respect of the administration of school private funds is considered to be effective with opportunity for improvement.

A summary of the positive outcomes, along with areas for improvement are as follows:
- One particular area that caused significant concern previously related to the lack of documentation to support expenditure. Overall, this review concludes that detailed records that provide an adequate audit trail for all income and expenditure transactions with running account balances maintained were now in place.
- There were a small number instances whereby expenditure in relation to the School Private Fund account should have been spent from the school budget account, but this was not on the same scale of previous audits. Additionally, no instances of potential irregular expenditure were noted.
- There was some inconsistency between the teaching staff in respect of the administration of school trips and staff should be reminded of the procedures to be followed for consistency.
- It was also identified that Statement of Accounts were not routinely completed at the conclusion of all trips.

PURCHASE CARDS

Based upon the work undertaken, it is concluded that the overall control environment in respect of the administration of purchase cards in schools is considered to be effective with opportunity for improvement.

A summary of the positive outcomes, along with areas for improvement are as follows:

- Schools maintain a Transaction Log detailing the expenditure incurred using the purchase card. However not all transaction logs were being updated in a timely manner following each transaction. Instances were also noted where expenditure relating to more than one card was recorded on the same transaction log or the log was updated by someone other than the card holder.

- Purchase cards were often used by members of staff other than the card holder, with a card sharing log in place to record these details. While this is acceptable, on a small number of occasions card details had been stored to personal accounts by staff members, allowing further orders to be placed without the need to access the purchase card.

- Bank statements were received regularly at all schools and in most instances were reconciled upon receipt. Evidence of this reconciliation however was not always evidenced by a signature and date, or to demonstrate that this had been done independently.

- Cash book journals were updated to SIMS by all schools showing details of all purchase card expenditure. Some instances were noted whereby there was a delay in the update of this information to SIMS.

- Whilst most schools ensured that all purchase card expenditure is appropriately receipted and incurred, there were occasions where schools had failed to obtain valid VAT receipts.

REGIONAL INTERNAL AUDIT SERVICE /
GWASANAETH ARCHWILIO MEWNOL RHANBARTHOL
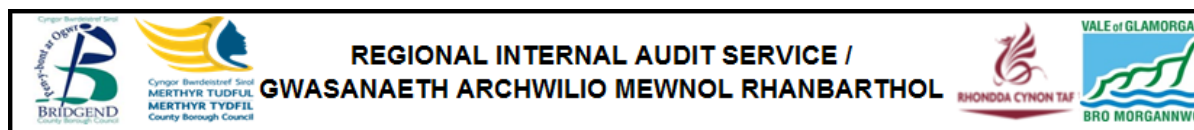
PROSPERITY, DEVELOPMENT & FRONTLINE SERVICES

AUDIT NAME: MANAGEMENT OF FUEL – PARKS 2019/20

DATE FINAL REPORT WAS ISSUED: 24/05/2019

INTRODUCTION

The Fleet Manager purchases fuel in bulk from the Council's approved contractors and issues it through pumps based at Council depots / sites.

The Fleet Manager re-charges Service Areas (including Parks) for fuel drawn, with the operational control / monitoring being exercised under the governance of the relevant Service Manager.

Fuel issued via Council pumps is controlled by a 'Dual Key' system which identifies both the vehicle used and the Officer drawing the fuel.

Parks staff also purchase fuel from commercial garages in circumstances where it may be impractical to access a Council pump. A Council purchase card is typically used in these circumstances.

Fuel is regularly drawn from both Council pumps and commercial garages for use in plant / machinery, in which case additional stock records should be maintained.

In 2018/19 the total spent on fuel by the Parks Department amounted to approximately £100k.

SCOPE & OBJECTIVES

In accordance with the agreed Internal Audit Plan for the financial year 2019/20 a review of the Management of Fuel - Parks was undertaken.

The primary purpose of the review was to ensure that fuel is appropriately managed and monitored, with the specific objectives being:-

- Fuel issued via Council pumps is appropriately managed.
- Fuel obtained from commercial garages is appropriately managed.
- Appropriate controls operate in respect of fuel issued 'off site' for plant / machinery usage.

AUDIT OPINION

Overall, the control environment in relation to the Management of Fuel in Parks is considered to be effective with opportunity for improvement.

FUEL ISSUED VIA COUNCIL PUMPS IS APPROPRIATELY MANAGED.

Each of the 3 Parks areas has designated managers responsible for managing all the fuel drawn / used.

Fuel is obtained using two keys, a vehicle key and a personal key (which identifies the officer drawing the fuel) from pumps located at various Council sites. Each month the Fleet Manager internally charges each Parks area for the fuel with a full breakdown which includes the date / vehicle key / driver key / fuel type / quantity.

Unleaded or gas oil is typically being drawn directly into machinery or cans which are then returned to each area and placed into 'stock'.

This review has identified 3 occasions, from a sample of 8, where the stock record form had not been completed where fuel was drawn internally in the Taf area.

FUEL OBTAINED FROM COMMERCIAL GARAGES IS APPROPRIATELY MANAGED.

The Taf and Rhondda areas obtain unleaded fuel from commercial garages as there are no Council fuel sites in the vicinity.

Prior to the 1st April 2019 invoices were routinely received and processed for payment by an administration officer without being checked for accuracy (audit testing for a sample period of 3 months identified no discrepancies). Since this date there has been an internal restructure and an administrator based in Aberdare Park is now responsible for checking the accuracy of the invoices.

APPROPRIATE CONTROLS OPERATE IN RESPECT OF FUEL ISSUED 'OFF SITE' FOR PLANT/MACHINERY USAGE.

Stock records for unleaded and gas oil are used in each of the 3 Parks areas. Examination of the stock record forms identified issues in the Taf and Rhondda areas, examples include:-

- Fuel taken from stock is not always being recorded.
- The officer's name / signature was not always recorded.
- The reducing balance was not always correctly calculated.
- Fuel obtained from commercial garages not always recorded.

From the 1st April 2019, fuel obtained from either Council pumps or Commercial garages is invoiced monthly and the 3 designated Parks Area Managers are responsible for checking the invoices for accuracy.

The implementation of the recommendations made within this report will enable the Parks Operation Manager to enhance the controls surrounding the management of fuel within the Parks service.

SUMMARY OF RECOMMENDATIONS:			
REPORT REF. & PRIORITY	FINDING	RECOMMENDATION	IMPLEMENTATION DATE
5.1.1 Medium	Cans are used to obtain unleaded petrol and gas oil from the pumps in Council depots and these cans are then physically placed into 'stock' in each area.	All fuel drawn into cans and placed into 'stock' should be recorded on the stock record forms. On a periodic basis, for example monthly,	Implemented

	Examination of the fuel reports from Fleet Management were compared to the stock records in each area for the period 28/1/19 to 31/3/19 - the following was noted in the Taf area:- • 5/2/19 - 168 litres of gas oil drawn from a depot, not updated onto stock record form. • 25/2/19 - 89.50 litres of gas oil drawn from a depot, not updated onto stock record form. • 25/2/19 - 60.7 litres of unleaded drawn from a depot, not updated onto stock record form.	Management should ensure that the stock record forms have been completed correctly and that the physical stock of fuel held corresponds to the fuel balance recorded.	
5.2.1 Medium	Each Parks area requires petrol and gas oil to operate certain types of machinery. In the Rhondda and Taf areas petrol cannot easily be obtained from a local Council depot, hence it is obtained from a commercial garage (Shell or Texaco) in the vicinity. When fuel is obtained from these garages the receipts are returned to and retained in each of the areas. It was established that up until the 1st April 2019 the corresponding invoices from the garages were being received and passed for payment by an administrator without checking their accuracy. Following an internal restructure from 1st April 2019, the fuel invoices from Shell / Texaco are now received, checked and passed for payment by an administrative officer.	Management should ensure that all invoices received for fuel provided by commercial garages are checked for accuracy before being passed for payment.	1 July 2019
5.3.1 Medium	Each area is maintaining fuel stock record forms when gas oil and unleaded petrol is both received into stock and then taken for use in plant / machinery. Examination of these stock records for the period January to March 2019 (and to 2nd April 2019 for the Taf area) identified the following issues:-	Management should ensure that all fuel stock record forms held in each of the parks areas are fully completed, in particular:-	Implemented

	Taf area Fuel taken from stock, no 'amounts out' recorded on the stock records, as follows:- • 5/1/19 can 19 - balance reduced by 20 litres (gas oil). • 1/4/19 can 1 and 40 - balance reduced by 20 litres (unleaded). • 1/4/19 cans 17 and 41- balance reduced by 20 litres (unleaded). • 2/4/19 can 24 - balance reduced by 10 litres (unleaded). Fuel taken from stock, no 'name / signature of' on the stock records as follows:- • 10 litres 26/2/19 (unleaded). • 20 litres 27/2/19 (gas oil). The reducing balance had been incorrectly calculated by 20 litres 29/1/19 (gas oil). Unleaded cans numbered 57 and 18 were issued 18/2/19 and can 49 issued 26/2/19 - stock record does not indicate when returned. **Rhondda area** Reducing balance incorrectly calculated 18/3/19, 40 litres taken, previous days balance 25 litres (gas oil) No officer 'name / signature' for the 20 litres 27/2/19 (gas oil). Fuel taken from stock, no 'amounts out' recorded on the stock records, as follows:- • 3/1/19 balance reduced by 10 litres (unleaded) • 5/3/19 balance reduced by 10 litres (unleaded) • 13/2/19 balance reduced by 20 litres (gas oil) • 28/2/19 balance reduced by 20 litres (gas oil) Petrol obtained from Shell garage 22/3/19, 60.71 litres - not recorded on stock records. **Cynon area** No issues noted.	• The name / signature of the officer taking fuel is recorded. • The amount of fuel taken is recorded. • The reducing stock levels are accurately calculated. • Cans returning to stock are accurately recorded. • Fuel placed into stock is accurately recorded.	