



Internal Audit Progress Report

March 2019

"Providing assurance on the management of risks"

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This report summarises the results of all audit work since the last progress report to the Committee in December 2018.

Summary of completed assurance work

The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls.

Table 1 summarises the results of the assurance work completed during the period showing the opinion given.

Table 1: Summary of completed audits

Audit		Level of Assurance
Adult Services		
1	Safeguarding	Substantial
2	Transitions – Children to Adults	Substantial
Children Families & Communities (CFC)		
3	Looked After Children- Placement and Spend	Substantial
4	Foster Payments	Substantial
5	School Themed Audit: Budget management, payroll, procurement, ordering and creditor payment processes	Limited
6	School Themed Audit – Schools in Financial Difficulties	Limited
Economy & Infrastructure		
7	Design Services	Substantial
8	Approval of Development	Substantial
9	Transport (incl SEND)	Moderate
Commercial & Change		
10	Performance Management	Substantial
Corporate		
11	Transformation & Savings Plans	Moderate
Finance		
12	Bank Reconciliation	Moderate
13	Pensions – Administration	Substantial

Audit		Level of Assurance
Local Enterprise Partnership		
14	WLEP – Assurance Framework	Substantial

Two of these audits the School Themed Audits on Budget management, payroll, procurement, ordering and creditor payment processes, and Schools in Financial Difficulties have been given a limited opinion. These audits were considered by Strategic Leadership Team on 5th March 2019 and a summary of the key issues arising is given in Appendix A.

Draft reports have been issued in respect of the following audits:

Children Families & Communities

- Learning & Achievement

Finance

- Accounts Payable

The above audits are still at draft stage but Accounts Payable is expected to be given a limited opinion.

The audits currently in progress are:

Children Families & Communities

- Alternative Delivery Model

Commercial & Commissioning

- Corporate Governance
- Procurement
- IT Governance
- Cyber Security
- Data Centre Security

Finance

- General Ledger
- Payroll
- Accounts Receivable
- Annual Governance Statement
- Pensions Investments

Other

- Counter Fraud governance arrangements

2017/18 Plan

Work has continued on completing the 2017/18 audits. The following audits previously reported as draft or in progress in the 2017/18 Annual Report have now been issued as final reports:

- Design Services
- Transport
- Transformation & Savings Plans

Management responses are either awaited or we are in the process of finalising the following 2017/18 audits which were included in the 2017/18 Annual Report as in progress:

- Adoption
- Learning & Achievement Contract

The findings from the Starters & Leavers audit are to be combined with the current Payroll report.

Whilst getting engagement has always proved difficult and was flagged in the EQA report earlier this year it appears to be an increasing problem resulting in delays in obtaining agreement to terms of reference and draft reports despite escalating as appropriate.

Recommendations

Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance are: Merits Attention, Significant and Fundamental.

In total since 1st May 2015, when the shared service started, 631 recommendations have been made to address weaknesses in control which would otherwise not have been identified. Of these 82 (67 as reported at the last Audit and Governance Committee) are overdue for implementation i.e. the target date agreed by the relevant manager at the conclusion of the audit has passed. Of these:

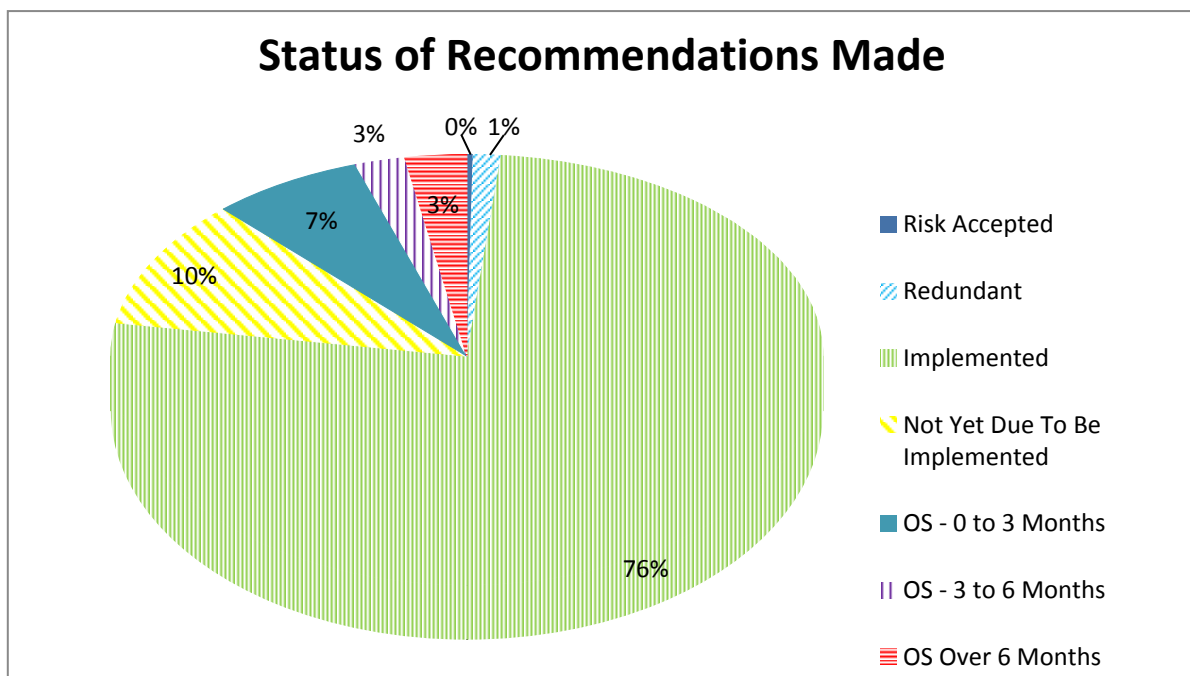
	0-3 months	3-6 months	+6 months	Total
Council recommendations with no responses from managers	4	1	1	6
School recommendations with no responses	19	4	1	24
Council recommendations with responses from managers	23	11	18	52
Total	46	16	20	82

Three percent (20) of the total recommendations raised are thus overdue by more than 6 months, however none of these are classed as fundamental. Four of the recommendations classed as fundamental remain outstanding by less than 3 months.

The Committee will note that for overdue recommendations we have not received a response to our requests for information on the status of implementation in relation to 29 recommendations. Of those 24 relate to schools. This relates to nine audits (4 School and 3 Council). It is therefore possible that some of these recommendations have been implemented.

The level of audit recommendations still to be implemented (13% of all recommendations raised since 2015) is a 2% improvement since the December 2018 Audit and Governance Committee Report and the number of managers actively working to address these recommendations has improved.

The Chief Financial Officer is currently reviewing with Directors the implementation dates for some of the outstanding recommendations.



Appendix B summarises those audits which have overdue recommendations.

Summary of non-assurance work

Counter Fraud

The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to planned assurance work, a number of special investigations are needed each year and since the last report the following investigations have been completed:

- **School A**

An audit review was conducted after a number of concerns were brought to Internal Audit's attention by School's Finance with regard to financial management within the School. Weaknesses identified included:

- Inappropriate expenditure transactions processed through the delegated budget;
- Procurement card purchases have been delivered to other addresses, without controls in place to ensure items are received into the School;
- Procurement card purchases are not subject to any independent review or authorisation;
- The School does not have in place an approved Finance Policy outlining the framework of controls within which the delegated budget should be managed;
- Governors have not completed a signed declaration of interests form since 2015 and the arrangements for interests to be declared do not cover relevant School staff;
- Staff salary reconciliations are not conducted to ensure the right individuals are paid the right amounts;
- There is no audit trail in place in respect of income received and income has not been banked regularly, allowing amounts to be built up, exceeding the School's insurance limits;
- There is no evidence that the 2018/19 budget plan was ratified by Governors;
- The School is not registered with the Information Commissioner for Data Protection purposes;
- A private fund bank account is open for contributions being collected for a charity, however these contributions have not been passed on to the charity.

A response to the draft report has been received from the Chair of Governors, and a final report issued. The individual who made inappropriate expenditure transactions has left the school and has repaid some of the monies identified.

- **School B**

An audit review was conducted after a number of concerns were brought to Internal Audit's attention by School's Finance with regard to financial management and administration within the School. The School operated a nursery and other extended school services having taken over the adjacent children's centre, however the headteacher had identified that income had not increased to the levels expected by the increased chargeable services provided by the school. The audit review, which included the assistance of a colleague from finance, highlighted a number of errors (over 20) on debtor invoices which resulted in the need to cancel or amend invoices issued. The School had also been issuing debtor accounts in arrears for pre-school fees. Given pre-school places are agreed in advance, it would have been appropriate to issue these debtor accounts in advance and request that they are also paid in advance to reduce the risk of build up of arrears and/or non payment of fees. These and other issues were raised with the headteacher and the school has shown a commitment to bring about the improvements required and the disciplinary process is ongoing.

National Fraud Initiative

Internal Audit also co-ordinated the submission of data to the National Fraud Initiative. Results have been issued to the appropriate teams for investigation of the matches.

Certification

The period saw the following grant claims requiring certification being audited satisfactorily by the required deadline.

- Regional Growth Fund - Confirmation to the Secretary of State for Business, Innovation and Skills of the number of jobs created

Work has also been carried out to improve our review process of the increased number of Troubled Families claims submitted by Early Help and Commissioning. We continue to review on a rolling programme 10% of the claims to provide assurance that the claims submitted are accurate.

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the period the service has provided an input to various corporate projects and this work is consistently welcomed by managers.

Since the last Progress Report, the following advisory work has been undertaken:

- **Pre- School Provision**

Advice was sought from a headteacher regarding a school's pre-school provision for which a separate bank account was held. Advice was provided around processes for receiving and accounting for income relating to the pre-school and the need to account for all income and expenditure within the delegated budget. It was agreed that the separate bank account would be closed and all activities brought under the delegated budget and the school's existing controls.

- **IR35 – SEND**

From the sample of payments reviewed for the audit of Accounts Payable, a payment to an individual engaged by a parent who had been provided with a personal budget to secure SEN provision for her son was identified. This highlighted potential HMRC (IR35) implications regarding the payments being made in this instance and more widely in respect of SEND payments. Audit have since worked with the SEND Team, including attendance at the SEND Management Team to offer further advice on how to manage this process.

- **School Journal Adjustments**

Assistance was requested in relation to Journal / Internal transfers between schools. Specifically, this was around what approvals, if any, should be provided. Advice given was that schools need to comply with the limits of delegated financial authority which are in place within each school and that there needs to be a full audit trail in place to support journals and internal transfers, including documented records of approvals for internal transfers between schools.

In addition to the above, Internal Audit continues to attend regular meetings of various corporate groups and provides advice and guidance as required. These include the Corporate Risk Management Group; Internal Audit is also attending meetings relating to the Finance Improvement Plan as part of the Communication and Training work stream.

Plan changes

The Council continues to face significant level of change and the audit plan has to be responsive to changes in risks. In year changes to the plan to reflect changed circumstances are accepted best practice. Taking into account our regular discussions with Directors a number of changes are now proposed.

A contingency allocation was included in the 2018/9 plan to cater for unplanned work. This allocation has already largely been used and in addition, because of the external scrutiny of Children Services following the Ofsted and SEND inspections, it is appropriate to defer a number of audits are no longer needed as the audits would not at this time add any value.

The time commitment on the replacement of Frameworki is likely to be higher than planned and there is no provision for work on control implications of the Finance Improvement Programme. It is considered that time would be better spent on advisory work on these initiatives rather than undertaking audits of existing processes which will be changing.

There are also some audits needing to be pushed back, to allow time for the recommendations from previous audits to be embedded. We also need to take into account maternity leave experienced by the team and staff leaving the audit team.

Taking all factors into account it is proposed that the following audits are deferred and considered for inclusion in the 2019/20 plan:

- Care Packages /Urgent Care
- Direct Payments (Adults)
- Safeguarding (Children's)
- Early Help effectiveness
- Waste Management
- Liberata Contract
- Delivery of Budget reductions
- Collaborative planning

- Medium Term Financial Planning
- HR Strategy/Policy development and compliance
- Information Management

The deferral of all the above audits has been agreed with the Chief Financial Officer and at this stage we do not envisage any further work requiring deferral.

Reports for Publication

The following final reports will be published by the Council following consideration by the Chief Financial Officer of whether they would require redaction prior to publishing. It should be noted that to date only Internal Audit reports where an opinion has been given have been published.

- Safeguarding
- Transitions – Children to Adults
- Looked After Children - Placement and Spend
- Foster Payments
- School Themed Audit: Budget management, payroll, procurement, ordering and creditor payment processes
- School Themed Audit: Schools in Financial Difficulties
- Design Services
- Approval of Development
- Transport (incl SEND)
- Performance Management
- Transformation & Savings Plans
- Bank Reconciliation
- Pensions – Administration
- WLEP – Assurance Framework

Published reports can be accessed by the following [Link](#)

Summary of Limited Assurance Audits Not Previously Reported to Committee

School Themed Audit: Budget management, payroll, procurement, ordering and creditor payment processes

A sample of schools, excluding academies was visited to review the following areas:

- Processes which enable the timely production of the budget and the continuous monitoring of the budget against the approved budget plan.
- Processes which ensure only legitimate employees are paid and payments are for the right amounts and properly approved.
- Contracts are awarded in accordance with EU Directives, UK Regulations, Contract Standing Orders and the Council's procedures and the award of contracts is subject to appropriate, documented approvals.
- Value for money can be demonstrated in the award of all contracts.

Weaknesses identified include:

- There is a lack of division of duties between instigating the creation of/amendments to payroll records; entry and approval of payroll claims; and checking/reconciling payroll payments. This exposes schools and the Local Authority to the risk of fraudulent and/or erroneous payments which are not detected.
- 3 of 5 schools in the sample did not have an approved Finance Policy in place, outlining the framework of internal controls within which the budget should be managed.
- In 3 of 5 schools there was no record that the Governing Body had ratified the latest budget plan and in 2 schools, there was no clear connection between the budget setting process and the priorities of the School Development Plan.
- Instances were found where there was a poor audit trail regarding budgetary monitoring and reporting.
- A total of 50 paid supplier invoices was examined and in 35 (or 70% of) cases, a purchase order was not raised and approved in advance.
- From a sample of contracts awarded, at 3 of the 5 schools, they were unable to demonstrate that an appropriate procurement process had been conducted to ensure value for money was obtained.
- 3 of 5 schools did not undertake effective staff salary reconciliations.
- Responses provided to questions which form part of the annual Schools Financial Value Standard were inaccurate in the case of some of the schools visited.

Assurance has been given that the Local Authority will highlight the common themes emerging from the audit to all schools to enable schools to ensure they have appropriate controls in place.

School Themed Audit: Schools in Financial Difficulties

The audit concentrated on those controls operated by the Council in monitoring and supporting schools with deficit budget plans.

- The arrangements to identify schools with deficit budgets and for subsequent support and monitoring.
- Controls to ensure deficits do not increase and plans to eliminate deficits.
- Arrangements which ensure budget plans are realistic and do not understate projected deficits.
- Appropriate controls and/or restrictions are in place regarding expenditure decisions, including purchases and staff appointments.

Weaknesses identified include:

- From a sample of 6 schools with deficit budgets, in each case they had not provided the required number of budget reports and governing body minutes that they agreed to as part of the conditions of the deficit budget plan approval process. In 3 cases, no budget reports had been provided to the Council in the financial year to date.
- For those schools that had provided some of the required budget reports, in one instance the projected deficit had increased by £7k, but this had not been discussed with the school concerned and actions agreed to contain the deficit. In another case, a budget report provided did not include any outturn figures, but again this had not been queried with the school concerned. It is important information provided by schools is thoroughly reviewed and followed up with the school if appropriate.
- Some of those schools submitting deficit budget plans have not provided detailed information, such as longer term budget plans, demonstrating how they intend to return to a balanced budget.
- No monitoring arrangements are in place within the Council to ensure that schools with deficit budgets are complying with the conditions they agreed to when submitting their budget plan, such as for budget virements, staff appointments and changes to employee contracts.
- It is apparent that Liberata have not delivered on their responsibilities under the contract service specification with regard to communicating “with LA Officers where schools predict a deficit outturn in order to enable them to return to a balanced budget.” The controls designed to identify schools with financial difficulties are therefore not operating effectively.

Appendix B: Audits with Overdue Recommendations at 31 January 2019

	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Adult Services									
Continuing Health Care	5	0	0	3	0	0	1	1	N
Direct Payments – Adults	5	0	0	4	0	0	1	0	Y
Adults Case Files	7	0	0	1	3	3	0	0	Y (Part)
Social Work Practice	2	0	0	1	0	1	0	0	N
Mental Health s75 agreement	12	0	0	2	0	10	0	0	Y
Commercial & Commissioning									
ICT Infrastructure	16	0	0	15	0	0	0	1	Y

Audit	Number of Recommendations								
	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Contract Management	11	0	0	4	0	3	1	3	Y
ICT – Cyber Risk and Security	5	0	0	3	0	2	0	0	Y
Information Management	6	0	0	3	0	0	0	3	Y
ICT Software Licensing (16-17)	2	0	0	0	0	0	0	2	Y
Agency Staffing	7	0	0	6	0	0	1	0	Y
Procurement	14	0	0	9	0	2	3	0	Y
Health and Safety	5	0	0	0	1	1	2	1	Y
ICT Disaster Recovery Arrangements	4	0	0	1	0	3	0	0	Y

	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Economy & Infrastructure									
Design Services	9	0	0	6	2	1	0	0	Y
Childrens Services									
Direct Payments – Children	8	0	1	1	0	0	0	6	Y
Foster Payments	6	0	0	5	0	0	0	1	Y
School Visits - St Catherine's CE Primary School	8	0	0	7	0	0	0	1	N
School Visits - Lindridge	8	0	0	7	0	0	1	0	N
School Visits - Offmore Primary School	15	0	0	12	0	0	3	0	N
School Visits – School A	19	0	0	0	0	19 (4 fundamental)	0	0	N

	Number of Recommendations								
Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Overdue (Months)			February Response Rec'd Y/N
						0 to 3	3 to 6	Over 6	
Finance									
Accounts Payable	7	0	0	6	0	0	1	0	Y
Feeder Systems	6	0	0	5	0	0	1	0	Y
Capital Expenditure	8	0	0	7	0	0	0	1	Y
Treasury Management	2	0	0	1	0	1	0	0	Y
Pensions									
Pensions Investment	3	0	0	2	0	0	1	0	Y
	200	0	1	111	6	46	16	20	