



TO: Audit & Governance Committee

FROM: Head of Audit & Assurance

DATE: 9 January 2018

PORTFOLIOS AFFECTED: All

WARDS AFFECTED: All

TITLE OF REPORT: **Audit & Assurance - Progress and Outcomes to 30 November 2017**

1. PURPOSE

To inform Members of the achievements and progress made by Audit & Assurance in the period from 1 September to 30 November 2017.

2. RECOMMENDATIONS

The Committee is asked to:

- discuss, review and challenge the outcomes achieved to 30 November 2017 against the Audit & Assurance Plan, which was approved by Committee on 11 April 2017.

3. BACKGROUND

The internal audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS).

The PSIAS require the Head of Internal Audit to communicate any significant governance, risk management and control issues identified to the Audit Committee during the year. This Progress and Outcomes report complies with the requirements of the PSIAS by communicating any significant issues that have been identified during the year.

4. RATIONALE

The Council is required under the Accounts and Audit (England) Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal audit standards (PSIASs).

The work undertaken throughout the year is intended to ensure that:

- at the year end, an objective and independent opinion can be provided that meets the PSIAS and statutory governance requirements;
- it demonstrates the effectiveness of the internal audit function; and
- throughout the year, support is provided to Members, Directors and managers in their particular areas of responsibility.

5. KEY ISSUES

Outcomes achieved in the year to 30 November 2017:

Risk and Corporate Governance

Director Exception/Dashboard Report and Assurance Statement Half-Year Update

The table below summarises the seven “red” priority areas of concern across the departments, by key themes, which have been identified from the summary Director Exception/Dashboard Report and Assurance Statements for the first half of the year, as at 30 September 2017.

This includes five “red” priorities that have remained as areas of concern from March 2017 and two new “red” areas (^N below) that have been identified and appear as red for the first time. There are also four areas of concern previously identified as “red” that have been downgraded (^D below) to “amber” this period.

			2017/18	2016/17
Themes	No	Description	30 Sept Half Year	31 March Year End
Demand Management	1	Deliver statutory requirements under Deprivation of Liberty (DoLS). (Adults).	Red	Red
		Deprivation of Liberty Safeguards and Children’s Service Care Orders & Public Law Outline. (HR, Legal & Corporate).	Amber ^(D)	Red
	2	Failure to recruit long term foster carers, Asian heritage foster carers and carers for older and more challenging young people increasing demand led services, in particular commissioned out of borough. (Children’s).	Red	Red
	3	Social Worker Workloads. (Children’s).	Red	Red
	4	Improve Integrated Discharge pathways – discharge to assess. Mandated Delayed Transfer of Care (DToC) targets are significantly higher, these will be a challenge to achieve than those identified as achievable with the Council and across the partnership. (Adults).	Red ^(N)	n/a
Budgets & Finance		Budget Pressures – Adult Social Care Commissioning. (Adults).	Amber ^(D)	Red
	5	Family Court Decisions Placing Increased Financial Burden On Permanence Planning. (Children’s).	Red	Red

	6	Under performance against targets for the National Careers Service. Performance to date is behind the profile. This is a payment by results programme so failure to draw down the funding would cause a budget pressure. (Localities and Prevention).	Red ^(N)	n/a
Staffing/ HR		Sickness Absence. (Corporate).	Amber ^(D)	Red
		Maintain Number of Approved Adopters. (Children's).	Amber ^(D)	Red
	7	Using data and intelligence to enable the Council to make better and informed decisions for the Borough. Review opportunity for developing e-learning module on HR portal relating to research and data. (Strategy and Funding).	Red	n/a

Counter Fraud Activity

National Fraud Initiative

A total of 8,837 data matches were received from the Cabinet Office as part of the 2017 National Fraud Initiative. Of these, 4,402 cases were highlighted as 'recommended matches'. These are cases which include several matching pieces of information from more than one data source, suggesting a greater degree of accuracy. The Cabinet Office suggests that these matches are prioritised for review. The results of work undertaken show that 2,475 data matches have been processed to date. A total of 461 fraud/errors have been found resulting in savings of £211,819. The table below illustrates main areas of activity and where savings have been identified.

Summary of Results

Area	No. of Frauds/Errors	Value (£)
Benefits (Housing/Council Tax Support)	26	£56,270
Council Tax Single Persons Discount	323	£87,348
Private Residential Care Homes	2	£10,778
Taxi Licences revoked	3*	N/A
Blue Badges/Residents Parking Permits	107	£57,423*
TOTAL	461	£211,819

*Taxi Licences revoked after it was established the holders had no leave to remain/right to work in the UK.

*The value attached to the Blue Badges/Residents Parking Permits has been determined by the Cabinet Office which considers the average loss of fraud/error to be £536.66 per case.

A further 59 data matches are currently being reviewed as the result of a supplementary report provided by the Cabinet Office on 11 December 2017. These involve data matches where it appears that the Housing Benefit claimant has failed to disclose student finance details. The initial work on these matches is being carried out by resources within the Audit & Assurance team before being passed to Revenues & Benefits staff to adjust benefit entitlement and refer to the DWP for further investigation where appropriate.

Audit & Assurance has completed an investigation into alleged fraud and corruption following a complaint received. Whilst no fraud or corruption was found, the findings, including several recommendations to strengthen internal controls, have been reported to management for further action.

We are also continuing to liaise with the Police regarding a case of suspected overpayments in respect a social care client responsible for the direct commissioning of their own care service.

In addition, work is on-going to review and update the corporate fraud risk register in liaison with the key contacts identified.

Internal Audit

A summary of the 12 audits completed and finalised since the last report to Committee are detailed below.

Risk, Control & Governance Reviews	Assurance Opinion		Recommendations
	Environment	Compliance	Agreed
Adult Services Client Case Management System (Mosaic)	Adequate	Adequate	5
Special Education Needs and Disability (SEND) Inspection Regime	Limited	Adequate	7
NNDR/Business Rates	Substantial	Adequate	3
Council Tax	Substantial	Substantial	2
Housing Benefits	Adequate	Adequate	4
Selective Licensing	Substantial	Substantial	0
Energy Grant	Adequate	Adequate	3
Disaster Recovery	Substantial	Adequate	1
Petty Cash – Children’s Services Administration	Adequate	Limited	16
Schools & Museums External Funding Governance	Adequate	Adequate	2
Belmont Primary School	Adequate	Adequate	15
St Peter’s CE Primary School	Limited	Limited	29

We have provided a brief commentary on the four audit assignments where we have

provided a limited or no assurance opinion.

SEND Inspection Regime: The audit considered the controls relating to the Council's preparedness for an inspection of the local area's effectiveness in identifying and meeting the needs of children and young people who have special educational needs and/or disabilities. The final report provided a **limited assurance** opinion for the control environment in place and **adequate assurance** regarding compliance with the controls identified. The key factors for this decision were:

- Terms of Reference had not been established for the Inspection Readiness Group;
- The SEND Strategy was in draft at the time of the review and had not been formally approved; and
- The Self Evaluation document required for the Inspection was not presented in an orderly manner.

Petty Cash – Children's Services Administration: The review assess the controls and processes in place relating to petty cash payments made from the Children's Services Administration account were appropriate and accordance with Standing Financial Instruction (SFI) 4 - Petty Cash Imprest Accounts. The final report provided an **adequate assurance** opinion on the control environment in place and **limited assurance** in respect of compliance with these controls at the time of the review. The key factors for this decision were:

- The cash in hand had not been counted and reconciled to petty cash records. A shortage of £30.01 was identified when the cash was counted during the audit;
- Petty cash had been used to reimburse employee expenses in some cases, in contravention of SFI 4. This type of expenditure must be repaid via payroll.
- Claim forms were not available for three of the ten items of expenditure sampled;
- There was insufficient details on some of the claims to confirm whether or not VAT had been properly accounted for or to enable the claims to be properly checked before authorisation;
- The keys for the safe where the petty cash was stored overnight were not kept in a secure manner where access was restricted to authorised staff. In addition the petty cash box was not stored securely when not in use during the day.

St Peter's CE Primary School: The final report provided a **limited assurance opinion** for the both the control environment in place within the school and compliance with the controls identified in respect of the areas covered during the visit. We made 29 recommendations to strengthen arrangements in place across eight of the eleven areas covered during the visit. This included 6 'must' level recommendations. There were issues found within the following areas:

- Management Structure (5 recommendations);
- Policies/Transparencies agenda (2 recommendations);
- Budgetary and Employee Control (4 recommendations);
- Expenditure Control and Cheque Control (3 recommendations);
- Petty Cash (3 recommendations);
- Bank Reconciliation (2 recommendations);

- Asset Control (3 recommendations); and
- Information Security and Access Rights (7 recommendations).

During the period Audit & Assurance staff have also completed appropriate work to enable the Local Authority Bus Subsidy Ring-Fenced (Revenue) and the Local Transport Settlement 2016/17 Grant declarations to be signed in respect of the year ended 31 March 2017. The results of the work confirmed that in all significant respects the conditions attached to the grant determinations had been complied with.

Current internal audit reviews

In addition to the above completed audits, the following reviews are ongoing:

- Adults Client Case Management System;
- Kings Georges Hall Events Management;
- Public Protection Inspections;
- Main Accounting;
- Members Allowances and Induction;
- Project Management/Capital Schemes Management;
- Personalised Budget/Direct Payments;
- Adoptions/Fostering Recruitment and Payment;
- Blakey Moor Heritage Lottery Grant;
- Off Payroll Engagement (IR35);
- Creditors/E-Procurement;
- CCTV – Pennine Lancashire Provision;
- Our Lady & St John’s Catholic College;
- Resource Link System Access; and
- Severance Payments.

Internal Audit Performance

The Departmental Business Plan includes seven targets to achieve our strategic aims. The defined targets and actual performance for the latest period and the previous period are as follows:

Performance Measure	Target	Q2 2017/18	Q1 2017/18
1. Delivery of Priority 1 Audits (Annual)	100%	N/A	N/A
2. Planned Audits Completed Within Budget	90%	66%	60%
3. Final Reports Issued Within Deadline	90%	92%	90%
4. Follow Ups Undertaken Within Deadline	90%	88%	87%
5. Recommendations Implemented	90%	96%	95%
6. Client Satisfaction	75%	100%	100%
7. Compliance with PSIAS (Annual)	95%	N/A	N/A

We have provided a brief commentary on the measures where performance (Q2, 2017/18) has fallen below the agreed target:

2. Planned Assignments Completed Within Budget

Four of the twelve audits (33%) were completed over budget. The scope of the SEND review was expanded during the audit to fully consider the governance arrangements in place as well as the detailed assessment of day to day service delivery. This necessitated extra audit time (2 days). The Petty Cash review required extra time due to the nature of the issues identified which necessitated additional testing to be carried out, meetings with managers to follow up queries and finalise the report and an element of on the job training for the apprentice (5 days). Extra time was used on Belmont School and St Peters CE Primary due to the issues identified and on the job training for the newly appointed apprentice.

4. Follow Ups Undertaken within Deadline

We have received responses to 5 of the 6 audits (83%) requiring follow up by 30 November. We did not receive a full response to the Private Care Homes Contracts Payments follow up (13 recommendations, 5 graded must).

Audit & Assurance will continue to seek a response from the audit client for the above review and provide a verbal update at the Committee meeting if received.

5. Recommendations Implemented

Of the follow up responses received we were able to identify that 70 (80%) of the 87 recommendations due for implementation on or before 30 November 2017 had been fully implemented and 7 (8%) partially implemented.

- St Peters RC Primary School– 25 recommendations; 21 fully and three partially implemented, one not yet done. No 'must' recommendations outstanding.
- St Thomas CE Primary School – 22 recommendations; 20 fully and one partially implemented. One not yet done. No 'must' were recommendations outstanding.
- Housing Growth Strategy – 14 recommendations; 13 completed, one must recommendation relating to the inclusion of project costs in the Growth model not implemented. These will be dealt with at a Growth team level and reviewed against budget.
- Private Care Homes Contract Payments – five recommendations had been fully or partially implemented. A management response was outstanding in respect of six recommendations, including two graded as 'must'.

Audit & Assurance Plan 2017/18 – In Year Review

As previously reported to this Committee, changes to the Audit & Assurance Plan will be submitted to Members for consideration when they become necessary. Changes to the Plan are now required because of the following emerging issues:

Resources – it was anticipated that Audit & Assurance would have staff resources amounting to 831 days for the delivery of the Audit & Assurance Plan. This comprised of 676 days for internal audit, 70 days for risk/governance and 85 days for fraud. However, it is now anticipated that Audit & Assurance will now only be able to deliver 775 days (682 days for internal audit, 45 days for risk/governance and 70 days for fraud). The short fall in days has arisen due to the Apprentice post being vacant for 6 weeks due to the previous post holder finding permanent job prior to the end of his fixed term contract and additional unplanned time being required to carry out investigations into potential fraud or irregularities and extra time in dealing with staffing and recruitment matters within the team time.

Audit & Assurance has proposed revisions to the Audit & Assurance Plan, which will allow it to provide an opinion on the Council's framework of governance, risk management and internal control. This revision will ensure that the highest priority

(priority 1) audits will be completed in 2017/18. The lower priority audits will be delayed to start at the end of the year or deferred and considered for inclusion in the Audit & Assurance Plan 2018/19 and will cover all departments/areas of the Council.

6. POLICY IMPLICATIONS

This delivery of the Plan leads to the Annual Internal Audit Opinion Report and this, in turn, contributes directly to the Annual Governance Statement.

7. FINANCIAL IMPLICATIONS

There are no financial implications arising as a result of this report.

8. LEGAL IMPLICATIONS

There are no legal implications arising as a result of this report.

9. RESOURCE IMPLICATIONS

There are no resource implications arising as a result of this report.

10. EQUALITY & HEALTH IMPLICATIONS

There are no equality or health implications arising as a result of this report.

11. CONSULTATIONS

Directors

Contact Officer: Colin Ferguson, Head of Audit & Assurance– Ext: 5326

Date: 21 December 2017

Background Papers: Audit & Assurance Plan 2017/18, approved by Audit Committee on 11 April 2017.