

<b>Local Members Interest</b>
N/A

## **Audit and Standards Committee – 12th June 2019**

### **Internal Audit Outturn Report 2018/19**

#### **Recommendation**

- a. To receive the outturn report containing the annual internal audit opinion for 2018/19.

#### **Report of the County Treasurer**

#### **Background**

1. This report outlines the work undertaken by Internal Audit in respect of the 2018/19 annual plan.
2. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e. the control environment of the organisation. Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>1</sup>.
3. Internal Audit is required by professional standards, i.e. UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
  - a. The opinion;
  - b. A summary of the work that supports the opinion; and
  - c. A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
4. The underlying principles to the 2018/19 plan were outlined in the Internal Audit Strategy and Plan paper presented to and approved by Members of the Audit & Standards Committee on 13 June 2018. Since the original plan was approved, a number of additional audits have been required, whilst some planned reviews were no longer needed and several deferred due to operational requirements. The net effect is that the key performance target has been achieved. Work is scheduled to meet the requirements of the business area to ensure the greatest benefit is

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<sup>1</sup> Public Sector Internal Audit Standards definition of Internal Auditing.

achieved from the audit work. Therefore it is not uncommon for reports to be at draft report stage at the end of the audit year.

5. Audit opinions are awarded for individual systems and compliance audits within one of the following categories listed below. Further information as to how these are determined is given in **Appendix 1**.
  - a. Substantial Assurance
  - b. Adequate Assurance
  - c. Limited Assurance
6. Paragraph 9 provides a high level summary of the work undertaken by the Section analysed by the following categories:
  - a. High Risk Auditable Areas
  - b. Main Financial Systems
  - c. Systems Audits (reported by exception, i.e. only those with “Limited Assurance” and/or those with a High Level Recommendation)
  - d. Compliance Reviews
  - e. Financial Management in Maintained Schools including payroll arrangements
  - f. Special Investigations/Fraud & Corruption Related Work.
7. For those areas awarded ‘Limited Assurance’, action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2018/19, Members of the Audit & Standards Committee have continued to receive full copies of all “Limited Assurance”, High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e. greater than £10,000 financial loss/Significant Corruption issues) once finalised. Relevant managers have attended the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Internal Audit will continue to track and report on the implementation of High Level recommendations, including those contained within reports awarded “Adequate Assurance”.

## **2018/2019 Audit Plan Outcomes**

### High Risk Auditable Areas

8. Our Internal Audit and Strategy and Plan Paper identified the top risk audits/reviews for the County Council in 2018/19. These reviews acknowledged the financial pressures that the Council is being faced with, with its continued work on the Medium Term Financial Strategy (MTFS); it’s project and programme work relating to Care Director (Adults and Children’s Modules) and the Adult and Children’s Financial Services review programme in support of the Council’s digital transformation programme, in addition to reviews of high value contracts such as the Home and Community Care Contract, and reviews relating to General Data Protection Regulations (GDPR) and the Council’s cyber arrangements.
9. The audit opinions for all the high-risk reviews are summarised in the table below:

System Area	2018/19 Opinion	2018/19 Consultancy
Medium Term Financial Strategy	Adequate Assurance	
Liberata Payroll System	Adequate Assurance	
Care Director (Adults & Children's Modules)		✓ Project advisory work during development stage of on-line portal. Position statement Issued
Adults & Children's Financial Services Review Programme – Project Advisory		✓ Project advisory work prior to go live
Home & Community Care Contract Review	Limited Assurance	
Cyber Assurance – Data Breach Incidents & Response Plans	Adequate Assurance	
Cyber Assurance – Patch Management	Adequate Assurance	
General Data Protection Regulations (GDPR)	Substantial Assurance	
Commercial Services - Procurement	Adequate Assurance	
**Dynamic Purchasing System	Draft Report with Management (Adequate Assurance)	

\*\* Currently at draft report stage, therefore the high-level recommendation has not been included within this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

10. The one Limited Assurance report issued for the high-risk systems areas in 2018/19, relates to the Home and Community Care Contract which reviewed Home and Community Care via the framework agreements for Personalised Care and Support services to ensure the contract terms and conditions were being met. The contracts commenced 1<sup>st</sup> October 2017 for 4 years with an annual contract value of £40 million for 2018/19. The Council originally expected mobilisation of providers to be completed by December 2017 but delays in mobilisation meant that the Commercial Team staff were required to assist with the process due to the large volume of work required. This additional work has impacted on the Commercial Team's ability to perform their contract management responsibilities, through no fault of their own which has led to a number of significant weaknesses being highlighted as part of the 2018/19 audit review. The high-level issues arising from this review are as follows:

System Area	Areas for Improvement
Home & Community Care Contract	<ul style="list-style-type: none"> <li>• <b>Contract Management Methodology</b> - A clear contract management methodology was not in place for the monitoring of all Key Performance Indicators (KPIs) as the method to be used to monitor some of the key metrics has not been identified yet.</li> <li>• <b>Monitoring and Enforcement of KPIs</b> – The audit review found that not all KPIs were being enforced and monitored to ensure the service provided under the contract is effective, performance issues are identified and addressed, and value for money is being achieved.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>Mobilisation of Providers</b> – At the time of the audit review, mobilisation was still not completed fully.</li> <li>• <b>Council Only Pays for Services Received</b> - Audit testing highlighted that visits recorded within CM2000 are paid automatically as actual costs without any detailed checks being performed. Testing of 20 CM2000 payments identified five instances of under-delivery and three instances of over-delivery by more than an hour. In addition, eight occasions were identified where there were small under or over delivery discrepancies of less than an hour within the charged week. If extrapolated over the total payments made, there could be significant overpayments.</li> <li>• <b>Use of the CM2000 System</b> – the audit review identified that there are providers that are not using the CM2000 system, which is a requirement of the contract, instead they are submitting invoices to obtain payment for service provision.</li> <li>• <b>Use of Pre-Purchase Rotas (PPRs)</b> – The audit review highlighted that Pre-Purchased Rota (PPR) contracts with one provider, costing over £76,000 per annum, are legacy contracts that are not providing value for money as the provider is delivering only to a small number of citizens.</li> <li>• <b>Provider Appeals Process</b> – The audit review found that there was a large backlog of provider appeals awaiting processing (518 appeals awaiting processing with amounts requested totaling £403,490) as ACFS are receiving more appeals than their resources can cope with, although additional temporary funding has been provided for four officers to assist with the backlog. It was noted that these costs had not been accrued in the Council's budget.</li> </ul>
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11. In addition, for those reports relating to high risk auditable areas, with an opinion of at least “Adequate”, six high level recommendations were made as follows:

System Area	Areas for Improvement
Medium Term Financial Strategy	<ul style="list-style-type: none"> <li>• <b>MTFS Assumptions are Reasonable</b> - The audit review acknowledged that whilst the Council has put in place a range of mitigating actions to reduce the financial pressures, the MTFS did not account for a continued rise in the number of children looked after by the Council or the price paid per placement.</li> </ul>
Liberata Payroll System	<ul style="list-style-type: none"> <li>• <b>Overpayments are identified and Addressed Promptly</b> – Audit testing highlighted that overpayment notification letters were not being issued timely, resulting in delays in generating invoices to recover the overpayments. This issue was also raised within the previous audit report, dated 16th May 2018. In addition, audit testing indicated that overpayments are not always promptly calculated, although this may be due to delays in the Council employees recording leavers in the iTrent system.</li> </ul>
Care Director (Adults & Children's Modules)	<ul style="list-style-type: none"> <li>• <b>Implementation of 2 Factor Authentication</b> – The review highlighted that there were currently no plans to implement any 2 Factor Authentication solution to the</li> </ul>

System Area	Areas for Improvement
	<p>portal and this has yet to be reviewed by a Senior Information Risk Officer.</p> <ul style="list-style-type: none"> <li>• <b>Document Upload to the Portal</b> - No solution had been found to ensure that documents uploaded from the web portal are scanned for malware. However, a suitable solution should be in place to check all files uploaded via the web portal for malicious content.</li> </ul>
Cyber Assurance – Data Breach Incidents & Response Plans	<ul style="list-style-type: none"> <li>• <b>Data Breach Notifications</b> – The audit review highlighted that incidents were not being reported to Information Governance Unit (IGU) in a timely manner to enable it the fulfil its obligations under the Data Protection Act 2018.</li> </ul>
Cyber Assurance – Patch Management	<ul style="list-style-type: none"> <li>• <b>Patching Procedures</b> – The audit review found that the Council are not deploying critical patches within 14 days of release as required by Cyber Essentials (the standard).</li> </ul>

12. The Home & Community Care Contract Review limited assurance audit along with the top risk audit review relating to the Medium-Term Financial Strategy is contained in the confidential agenda and will be discussed in detail when the Committee reaches this part of the agenda. The remaining top risk reviews which have not been previously presented to the Audit and Standards Committee will be distributed to Members of the Committee as part of the July Committee meeting Confidential Agenda Pack for further consideration.

### Main Financial Systems

13. Coverage of these areas is in line with the audit strategy.

Main Financial System	2015/16 Opinion	2016/17 Opinion	2017/18 Opinion	2018/19 Opinion	Direction of Travel
Pensions Payroll	Substantial Assurance	Adequate Assurance	Adequate Assurance	Substantial Assurance	↑
Pension Fund – Custodian, Investment Managers and Pensions Property.	Substantial Assurance	Substantial Assurance	Substantial Assurance	Not Covered in 2018/19	→
Pensions Fund – Local Government Pension Scheme (LGPS): Asset Pooling Arrangements	N/A in 2015/16	N/A in 2016/17	N/A in 2017/18	Project Advisory Work in 2018/19	→
Pension Fund – Pension Administration	Substantial Assurance	Adequate Assurance	Adequate Assurance	Substantial Assurance	↑
Pension Fund - Governance	Not covered in 2015/16	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Procure to Pay	Not covered in 2015/16	Adequate Assurance	Adequate Assurance	Not covered in 2018/19	→

Main Financial System	2015/16 Opinion	2016/17 Opinion	2017/18 Opinion	2018/19 Opinion	Direction of Travel
Sales to Cash	Adequate Assurance	Limited Assurance	Limited Assurance	Limited Assurance	→
Debt Recovery (Legal Services) now included within the Sales to Cash audit review since 2016/17	Adequate Assurance				
E- Payments	Not covered in 2015/16	Not covered in 2016/17	Substantial Assurance	Substantial Assurance	→
Cheque Control	Not covered in 2015/16	Not covered in 2016/17	Not covered in 2017/18	Substantial Assurance	→
Nominal Ledger Including Bank	Substantial Assurance	Project work & reported under the high-risk areas	Bank Reconciliations Adequate Assurance	Substantial Assurance	↑
Treasury Management & Lloyds Link	Substantial Assurance	Not covered in 2016/17	Not covered in 2017/18	Substantial Assurance	→
Value Added Tax (VAT)	Not covered in 2015/16	Not covered in 2016/17	Not covered in 2017/18	Substantial Assurance	→

14. There has been one Limited Assurance report issued for the main financial systems areas in 2018/19 relating to sales to cash (including debt recovery). This was also reported as a limited assurance audit review in 2017/18. The high-level issues arising from this review are as follows:

System Area	Areas for Improvement
Sales to Cash	<ul style="list-style-type: none"> <li>• <b>Outstanding Debt level</b> - The latest debt position for debt older than six months was £12.851 million against a self-imposed target of £5 million. Whilst there are proactive steps being taken to recover debt from CCGs and other government bodies, individual and commercial debt older than six months has increased by £2.221 million since March 2018. It was also noted that the methodology to calculate the current debt position has not been documented and supporting documentation not retained.</li> <li>• <b>Debt Recovery Action</b> – Audit testing found that debt recovery action is not being undertaken promptly and the automatic reminder letter function in My Finance was not working for debts raised in Company Code 1 (SCC). Therefore, debt recovery action was not occurring as per debt recovery processes.</li> <li>• <b>Legal Debt Recovery</b> - New debts were not referred for legal recovery in 2018/2019. This issue had previously been reported in the Sales to Cash audit 2017/2018.</li> </ul>

15. The Sales to Cash limited assurance review is contained in the confidential agenda and will be discussed in detail when the Committee reaches this part on the agenda.
16. For information, for those reports with an opinion of at least “Adequate” for each financial system, no other high-level recommendations have been made.

Systems Audits – (reported by exception, i.e. only those with Limited Assurance and/or those with a high-level recommendation).

System Area	2018/19 Opinion
Approved Mental Health Professionals (AMHPs)	Limited Assurance
Prison and Approved Premises Team	Limited Assurance
Data Centre Environmental & Physical Security Controls	Limited Assurance
Data Sharing Agreements	Limited Assurance
Financial Assessments and Property Follow-Up	Limited Assurance
Deputyships	Limited Assurance
My HR System Security	Limited Assurance
Brokerage – Non-Residential Pathway	Limited Assurance

*One other system audit review has also been awarded a Limited Assurance opinion. This review is at draft report stage and therefore, the high-level recommendations have not been included within this section of the Outturn report. Once finalised, the completed report will be circulated to Members of the Audit & Standards Committee.*

17. Assurance could not be provided regarding the operation of the following control objectives:

System Area	Areas for Improvement
Approved Mental Health Professionals (AMHPs)	<ul style="list-style-type: none"> <li>• <b>Dedicated Administrative Support for the AMHP Service</b> – The audit review highlighted that the Administrator is now line managed by the BEST Administrative Support Team, with a generalized job description, therefore there is no longer dedicated, specialist administrative support for the AMHP service.</li> <li>• <b>Section 75 Agreement</b> – There was no signed Section 75 Agreement currently in place. In addition, the current draft of Schedule 2 Part B of the Section 75 Agreement does not include clear and specific terms and conditions relating to the AMHP service and activities meaning that oversight by the Council may be impeded.</li> <li>• <b>Data Collection</b> – The audit review found gaps in data collection and inconsistent review of performance data in relation to the AMHP service.</li> <li>• <b>AMHP Recruitment Process</b> – Audit testing highlighted that there is no process in place for the verification of DBS checks prior to AMHP authorisation, and inconsistency around how checks on professional registrations are managed.</li> </ul>
Prison and Approved Premises Team	<ul style="list-style-type: none"> <li>• <b>Processes and Procedures</b> - Prison Social Workers do not follow consistent processes relating to the completion of care assessments, support plans and reviews. Also, policies and procedures are not documented.</li> <li>• <b>Information Sharing and Compliance with the General Data Protection Regulations (GDPR)</b> – testing found that evidence that consent to care or information sharing had been obtained from citizens in custody was not on file.</li> </ul>

	<ul style="list-style-type: none"> <li>• <b>Financial Assessments</b> - Financial assessments and Continuing HealthCare (CHC) checklists had not been completed resulting in a potential loss of income to the Council. Additionally, staff were unaware of the processes in place for ensuring this documentation is completed.</li> <li>• <b>Re-Assessment of Care Needs</b> – Audit testing identified that annual re-assessments have not been completed as per the requirements of the Care Act 2014 and six-week reviews of support plans have either not been completed, were completed incorrectly or were completed late.</li> </ul>
Data Centre environmental & Physical Security Controls	<ul style="list-style-type: none"> <li>• <b>Maintenance Schedules and Logs for data centre hardware</b> – The audit noted that a lack of meetings and centralised log of issues and maintenance work at the Eastgate Street Data Centre has led to numerous outstanding issues not being resolved and items of equipment not being serviced to schedule.</li> <li>• <b>Physical Security- CCTV</b> - During a site visit and further examination of the CCTV cameras at the EDC, Internal Audit identified numerous issues.</li> <li>• <b>Physical Security of the Data Centre</b> - Site visits highlighted numerous insecurities at the EDC that affected the physical security of the server room.</li> </ul>
Data Sharing Agreements	<ul style="list-style-type: none"> <li>• <b>Data Sharing Records</b> – The audit review highlighted that documentation around data sharing was not consistently signed, dated and saved in a read only format.</li> <li>• <b>Contract Documentation</b> – The audit review also highlighted that contract documentation did not include Data Sharing Agreements.</li> <li>• <b>Retention and Destruction of Data</b> – The audit review found that there has been no confirmation or audit trail of the destruction or transfer of data once the time-period stated within Data Sharing Agreements has come to an end.</li> </ul>
Financial Assessments and Property Follow-Up	<ul style="list-style-type: none"> <li>• <b>Completion of Deferred Payment Agreements (DPAs)</b> – Our follow-up work found that processes in place for securing DPAs are not being implemented consistently.</li> <li>• <b>Evidence of Legal Charges</b> – Our follow-up work highlighted instances where debt has been incorrectly classified as secure.</li> </ul>
Deputyships	<ul style="list-style-type: none"> <li>• <b>Management Oversight</b> – The audit review found that a number of supervision/management checks have not been completed or not completed at the required intervals increasing the risk that citizen finances are not managed properly and safeguarded.</li> <li>• <b>Internet Banking Controls</b> - It was found that there are weaknesses in internet banking controls (access and transaction controls) which increase the risk of unauthorised transactions being made.</li> </ul>
Brokerage – Non-Residential Pathway	<ul style="list-style-type: none"> <li>• <b>Completion and Authorisation of Service Provisions</b> – The audit review found that there is a significant backlog of draft service provisions outstanding within the Brokerage Team.</li> <li>• <b>Quality Assurance Process</b> – The audit review also found that there is no Terms of Reference for the Brokerage Quality Assurance Panel (BQAP) and it is unclear how cases are prioritised and processed, which could cause delays in the decision-making process.</li> </ul>



18. The limited assurance reviews not previously reported to the Audit & Standards Committee will be distributed to Members of the Committee as part of the July Committee meeting Confidential Agenda Pack for further consideration.

19. The following table lists those systems audits where high-level recommendations have been made to address control weaknesses within Adequate Assurance reports:

System Area	Areas for Improvement
Growing Places Fund	<ul style="list-style-type: none"> <li>• <b>Award of Grant Funding</b> – Audit testing found that there was a lack of transparency over the decision-making process and rationale for the award of grants from the Growing Places Fund for 2 of the 4 applications reviewed.</li> </ul>
Household Waste Recycling Centre	<ul style="list-style-type: none"> <li>• <b>Contract Key Performance Indicator (KPI) Data</b> – The audit review found that KPI data was not being presented by the Contractor contrary to contract requirements.</li> </ul>
Arts & Museums - Collections	<ul style="list-style-type: none"> <li>• <b>Income from Sales/Disposal of Museum Items</b> – The audit review highlighted that no reconciliation is completed to ensure all sales income has been received in full and accounted for appropriately in accordance with the Council's Financial Regulations (F4). Also, it was noted that the transfer of income between staff is not undertaken in accordance with the Council's Financial Regulations (F9)</li> </ul>
Appointeeships – Agency Account Reconciliations	<ul style="list-style-type: none"> <li>• <b>Bank Reconciliations</b> – The audit review identified that bank reconciliations were not always up to date for the sample of agency accounts reviewed.</li> </ul>
Office 365 Project	<ul style="list-style-type: none"> <li>• <b>Back Up Strategy</b> - A backup solution for Office 365 has not yet been identified by the Office 365 project</li> </ul>
IT Disaster Recovery	<ul style="list-style-type: none"> <li>• <b>Recovery of Critical Systems</b> – It was noted that systems identified by the business areas have not been prioritised to identify the most critical to least critical systems. Further to this, IT Action Cards that have been documented by individual business areas have not been done so in partnership with SICT.</li> </ul>
Identity and Access Management	<ul style="list-style-type: none"> <li>• <b>User Access Permissions</b> – The audit review found that new user accounts are created by copying an existing account of someone in a similar role. This could lead to inappropriate access permissions being granted which is compounded over time. This is further exacerbated by a lack of specific guidance for line managers to assist with assigning user access permissions.</li> </ul>
Recruitment - Core	<ul style="list-style-type: none"> <li>• <b>Pre-Recruitment Checks</b> - Testing found that the contractor had not maintained TRIM files for three of nine files where it was expected to, and that there was inconsistency in the quality of the files.</li> </ul>
Innovate UK Grant	<ul style="list-style-type: none"> <li>• <b>Grant Agreement and Documentation</b> – Internal Audit was unable to be provided with a copy of the grant agreement to provide clarification of the funding criteria, or the Project Plan and Milestone Register, which were supporting documentation initially submitted to Innovate UK for the project.</li> </ul>

System Area	Areas for Improvement
My Finance Upgrade	<ul style="list-style-type: none"> <li><b>Record of Testing</b> – The audit review highlighted significant inconsistencies in relation to the recording and quality of tests to be undertaken and completed.</li> </ul>

Note: There can be a maximum of one high level recommendation contained in a report awarded adequate assurance.

## Compliance Reviews

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
<b>Compliance - Adults</b>				
Comforts Funds*	12	0	0	12
<b>Other Compliance</b>				
Educational Endowment Funds*	5	0	0	5
Register Offices	3	0	0	3
<b>Compliance Reviews</b>	<b>20 (100%)</b>	<b>0 (0%)</b>	<b>0 (0%)</b>	<b>20</b>

\*These reviews related to the audit of accounts and no issues were identified.

20. The review of Register Offices highlighted the following areas of weakness:

- a. Not all income was being receipted as per the guidance (3 offices)
- b. Receipts were not being used sequentially (1 office)

21. The above weaknesses raise the risk that there is an insufficient audit trail to provide assurance that all income collected has been banked.

## Financial Management in Maintained Schools

### Schools Payroll

22. For the year 2018/19, payroll services to schools have been provided by two providers. As a result, Internal Audit has continued to undertake a themed audit review of payroll services to provide assurance on the internal control environment operating in schools for this area. To ensure efficiency of operation, the payroll themed review was undertaken at the same time that the compliance review was completed at the school, hence only one opinion has been given covering all systems at the school. The detail from the themed audit reviews on payroll is provided at the Schools Compliance section below.

### Schools Compliance

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Schools Compliance – High Schools*	1	3	0	4
Schools Compliance – All other schools*	2	9	1	12

<b>TOTAL</b>	<b>3 (19%)</b>	<b>12(75%)</b>	<b>1 (6%)</b>	<b>16</b>
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\*NB Payroll themed reviews - no separate opinion has been given as all incorporated into the one opinion for the school as highlighted at 9.5.1

23. The compliance and payroll themed reviews identified non-compliance with key controls in the following areas:

#### Schools – General Compliance

24. Governance

- a. Scheme of Delegation requires amendment/approval. (15 schools)
- b. Budgets have not been set or approved or reviewed in accordance with the Scheme of Delegation. (4 schools)
- c. Policies not approved in accordance with the Scheme of Delegation. (5 schools)
- d. No/out of date debt management policy or does not cover all areas of income. (7 schools)
- e. School Fund not audited and approved in accordance with requirements of Financial Regulations. (5 schools)
- f. Pecuniary interest register not up to date or held/published in accordance with guidance. (9 schools)
- g. Leases not in the name of the school, not signed in accordance with Scheme of Delegation /or copies not held by the school. (5 schools)
- h. Governing Body Agendas and minutes not held by the school or do not cover all items. (3 schools)

25. Income

- a. Income is not banked promptly and/or intact. (6 schools)
- b. Income is not recorded or receipted in accordance with Financial Regulations, including a clear audit trail. (10 schools)
- c. There is a lack of separation of duties or independent check in the income and banking process. (13 schools)
- d. Cash is not held securely and/or may not be held in accordance with SCC Insurers cash holding limits. (6 schools)
- e. Lettings are not administered appropriately, including VAT and evidence of insurance. (10 schools)
- f. Lettings charges are not made in accordance with policy or reviewed and approved annually. (5 schools)
- g. Invoices have not been raised in the finance system or unofficial invoices have been raised. (4 schools)
- h. No independent reconciliation or review of Parent Pay postings. (5 schools)

26. Procurement

- a. No financial limits set for declared pecuniary interest in companies. (5 schools)
- b. Procurement/purchasing card transactions not in accordance with Scheme of Delegation and Procurement Regulations. (14 schools)
- c. Purchase card is not held/ used in accordance with the Purchase Card Manual/Financial Regulations. (5 schools)

d. Incorrect accounting for VAT. (6 schools)

27. Expenditure

- a. Lack of supporting documentation to evidence expenditure incurred. (1 school)
- b. Academy conversion grant has not been repaid to the DfE as a result of non-conversion. (1 school)

Schools – Payroll Themed Audit

28. Although control weaknesses relating to payroll processes operating at schools have been identified in 2018/19, it is pleasing to note that fewer control weaknesses have been identified this year when compared to previous years. The weaknesses found related to the following areas:

- a. Authorisations for appointments, terminations and variations could not be evidenced, is not consistent and/or retained on personnel files. (9 schools)
- b. Additional hours claim forms not signed by employee and/or not authorised in accordance with the Scheme of Delegation. (9 schools)
- c. Validation checks and agreement/authorisation of the payroll is not evidenced. (6 schools)
- d. Service level agreement for current year to confirm services to be provided/costs not received. (1 school)
- e. Contract for provision of payroll services not authorised in accordance with Scheme of Delegation. (3 schools)
- f. Procedures not in place to ensure the prompt receipt of contracts of employment. (1 school)
- g. Lack of separation of duties between input of payroll information and checking of payroll reports. (3 schools)

Special Investigations/Fraud & Corruption Related Work

29. A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as **Appendix 2** in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2018/19 indicated that there are minor lapses in the application of controls leading to an increase in the risk of fraud. The table below summarises those exercises and investigations which involved confirmed financial losses. Reports have been issued to ensure that the control weaknesses have been addressed and re-occurrence prevented.

Area	Financial Value £	Control Objective
Internal Special Investigations of Fraud	23,085	This figure includes suspected loss from ongoing investigations.
National Fraud Initiative (NFI)* (all losses are subject to final validation & recovery action)	54,000	Payments to Care Homes for Deceased Residents - to date
<b>Total</b>	<b>77,085</b>	

\*NFI = National Fraud Initiative. This is a national exercise undertaken biennially which is currently administered by the Cabinet Office. Data submitted by the Council is crossed checked against other public sector

organisations' data highlighting potential areas of fraud/error. These are then investigated locally. Detailed reports are reported regularly to Members of the Audit & Standards Committee highlighting the results of this work.

30. The quantity of concerns referred to Internal Audit is comparable with the previous year with a slight increase of two, during the year to 27. Potentially, this is due to our continued anonymous methods of reporting fraud available (such as the online reporting form). The actual loss related to referrals has increased from £11,238 in 2017/18 to £23,085 in 2018/19. This value is not seen to be material.
31. In order to evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £300,000 financial loss per annum has been set. When this level is exceeded it is considered to have a material effect on the control environment. This year's level of actual financial loss does not indicate detected fraud is a significant problem to the Council.
32. It should be noted that the figures below include error and losses identified during the NFI 2018 exercise to date. As outlined in Appendix 2, these losses include both fraud and error, much of which we expect to be recovered. Of the £77,085 identified as losses from fraud and error in 2018/19, only £23,085 relates to suspected fraud against the Council, the remainder (£54,000) being errors identified during the NFI. The table below shows the trend of actual financial loss due to fraud and error over recent years:

Year	Financial Value	Direction of Travel
2011/12	£179,312	↑
2012/13	£29,831	↓
2013/14	£101,753	↑
2014/15	£94,140	↓
2015/16	£73,115	↓
2016/17	£56,690	↓
2017/18	£105,232	↑
2018/19	£77,085	↓

33. The special investigations category consists of two elements: firstly, the financial loss incurred, and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements	10%
£50,000 - £150,000 loss	40%	Physical Cash/Asset management arrangements	10%
£150,000 - £200,000 loss	30%	Payment mechanisms	10%
£200,000 - £300,000 loss	20%	Payroll /Expenses	10%
Above £300,000 loss	10%	Income	10%

34. Based on the above criteria the overall score awarded for this category is **90%** (i.e.40% for the special investigations elements as the actual financial loss incurred is between £50,000 - £150,000. 50% has been awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

### Overall Opinion on the Control Environment

35. Following discussion at the Audit & Standards Committee at its meeting on 30 July 2012, it was agreed to endorse the methodology outlined below, which was used as the basis to form the annual assessment of the overall internal control environment. It is not proposed to amend this method for the 2018/19 assessment.

#### Current Methodology

36. Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of “Adequate or above” within each category. For a reason of simplicity, each category attracts equal weighting and a simple pass / fail assessment is used to differentiate the overall opinion between “Substantial, Adequate and Limited” as illustrated below:

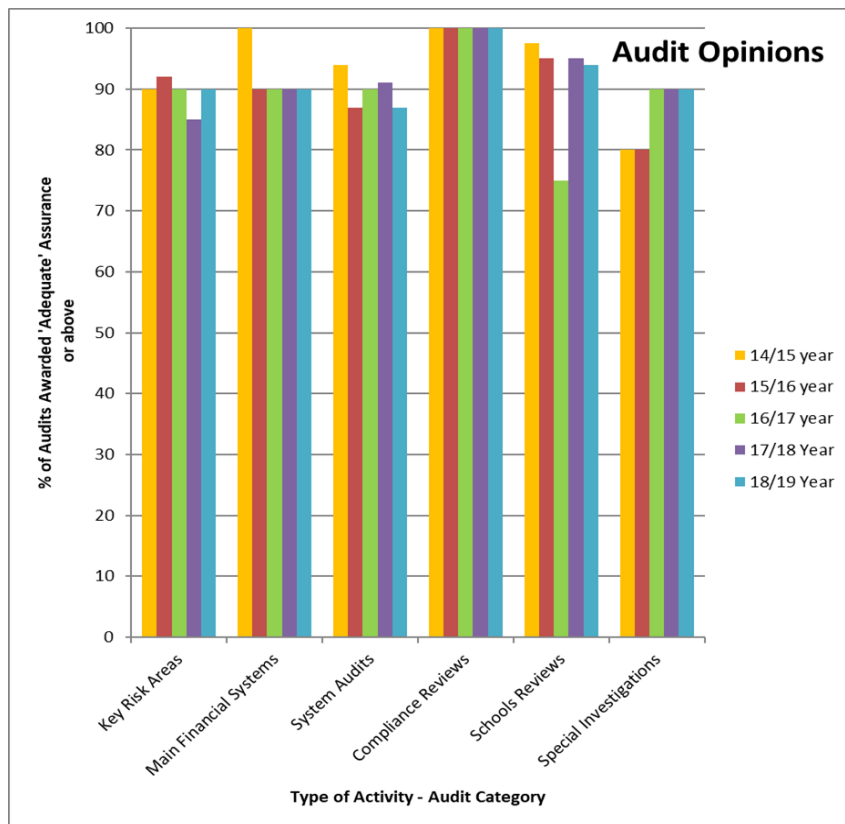
Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	6 out of the 6 categories
Adequate Assurance	4 or 5 out of the 6 categories
Limited Assurance	3 and below out of the 6 categories

#### Implications

37. The following table details the calculation of the 2018/19 overall assessment:

Audit Category	% awarded an opinion of at least “adequate”	Pass/Fail
Key Risk Areas ( <i>paragraph 9.1</i> )	90%	Pass
Main Financial Systems ( <i>paragraph 9.2</i> )	90%	Pass
System Audits ( <i>paragraph 9.3</i> )	87%	Fail
Compliance Reviews ( <i>paragraph 9.4</i> )	100%	Pass
Financial Management in Schools ( <i>paragraph 9.5</i> )	94%	Pass
Special Investigations/Fraud & Corruption Related Work ( <i>Paragraph 9.6</i> )	90%	Pass
<b>Overall Total</b>		<b>5 out of 6 categories passed</b>

38. The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded over the last five years, 2014/15 to 2018/19:



39. Based on the above, an “**Adequate Assurance**” opinion has been given on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework, i.e. the control environment in 2018/19. This year’s audit plan has been dominated with audit activities which support not only the Council’s digital transformation programme but also the Adult Social Care (ASC) Pathway. Adopting agile auditing approaches within our audit processes, has allowed the Internal Audit Service to provide a just-in time and proactive approach to support the right projects at the right depth and focus, at the right time. This approach has been adopted specifically within our on-going project work as part of the Adults and Children’s Financial Services Transformation Programme; the ASC Digital by Design Project and the Office 365 Project during 2018/19. Some high-level issues have been raised in 2018/19 within these areas and the Internal Audit Service will continue to support the design and implementation of a robust control environment in 2019/20.

40. Following the successful launch of My HR and My Finance in September 2017 and November 2017 respectively, the high-level issues raised in relation to the system security arrangements for both My HR and My Finance have continued to be monitored in year along with all the other agreed recommendations made as part of the suite of work forming the “SAP Replacement Programme”. In addition, for the first time, an audit review on the My Finance control function which sits within Accountancy was carried out in-year, and a substantial assurance opinion was given over the control and monitoring arrangements in place within the Team. Whilst it is pleasing to note that many of those recommendations made as part of the SAP

replacement programme have been implemented now, the My HR systems security review has again been awarded a limited opinion. In respect of this, although three out of the five previously high-level recommendations have now been implemented as well as mitigating controls in place to reduce the risks of the remaining two high level recommendations, there are three control areas that remained outstanding from the previous year that Internal Audit has still been unable to give assurance on, due to a lack of evidence provided by the contractor, as well as some other control issues relating to access, security and back-up arrangements. In respect of this matter, the County Treasurer needs to continue to liaise with the contractor to obtain evidence of these controls in place or accept the risks associated with these weaknesses going forward.

41. The payroll control environment for the Council's core payroll has improved in 2018/19, which has resulted in the system being awarded an adequate assurance opinion this year (a limited assurance opinion was previously awarded in 2017/18). The Schools' compliance element of the assessment has achieved the benchmark also. Although control weaknesses relating to payroll processes operating at schools have continued to be identified in 2018/19, it is worth noting that fewer control weaknesses have been identified this year when compared to previous years. Also, the main financial systems element of the assessment has achieved the benchmark, with an improved direction of travel relating to both the administration of the Staffordshire Pensions Fund Local Government Pension Scheme and the nominal ledger highlighted in 2018/19. However, it is concerning that the level of outstanding debt continues to grow, and further improvements are required in respect of the debt recovery process. For these reasons, this area of operation has been given greater prominence and for the year ahead has been re-categorised as a top risk area.
42. Several other system audit reviews during 2018/19 have identified high level issues which have resulted in these reviews being awarded limited assurance opinions. It is noted that the overall number of limited assurance opinions being awarded within this category has increased again, up by 50% when compared to last year. An analysis of the high-level control issues arising from these reviews indicates that although there are a few system control weaknesses that need to be addressed, such as the physical security controls at one of the Council's locations and improvements to internet banking controls within another service area, predominantly the high-level control issues relate to officer non-compliance with agreed policy, best practice and procedures. The non-completion of key tasks and the failure to complete tasks consistently and correctly along with poor record keeping and a lack of management checks carried out were common themes arising from these reviews. One reason for this may be due to issues of capacity within the Council to undertake key activities. The issue of capacity was also identified last year as a potential concern. It is important that the key actions identified in these audits are addressed, implemented as agreed and progress monitored to ensure that the necessary steps have been taken to strengthen the control environment. This will continue to be a key focus for the 2019/20 Internal Audit Plan.



## Performance Measures

43. Key performance indicators (KPI) for the Internal Audit Service are detailed below. The Service has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2018/19. The Service continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2016/17	2017/18 %	2018/19 %
Reports issued to draft report stage:				
➤ Systems Audits	90	91	92	96
➤ Compliance Audits	90	100	95	92
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:				
➤ System Audits	90	100	100	100
➤ Compliance Audits	90	100	100	100

## Performance against the UK Public Sector Internal Audit Standards (PSIAS)

44. The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. These have been updated periodically since (last updated April 2017). A Local Government Application Note (LGAN) has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards. The LGAN is also updated periodically (last updated March 2019).
45. The Internal Audit Service works to an Audit Charter approved regularly by the Audit & Standards Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way in which it interfaces with the Council. A detailed paper outlining how the Service meets the specific requirements of PSIAS & LGAN was presented to the Committee in June 2014 and since this date, internal self-assessments have been undertaken. In January 2018, the Service procured its inaugural external quality assessment (which is required to be conducted once every five years) by CIPFA and the highest category level was awarded regarding compliance with the PSIAS and LGAN. One recommendation was made together with three suggestions for improvement and the full assessment was reported to the Audit and Standards Committee in March 2018. Progress in implementing these improvements is reported below:

No.	Action Point	Current Status
R1	The Chief Internal Auditor should update the Senior Management Team and the Chief Executive on a regular basis on Internal Audit's progress on delivering the annual audit plan	<p><b>Completed</b> – The Chief Internal Auditor presents the proposed Internal Audit to SLT in May each year prior to submission to the June Audit &amp; Standards Committee.</p> <p>The Chief Internal Auditor regularly reports on delivery of the audit plan to the Head of Internal Audit &amp; Financial Services throughout the year. Section 151 matters are reported in all instances to the County</p>

No.	Action Point	Current Status
		<p>Treasurer who reports to SLT for all Section 151 matters.</p> <p>Any issues regarding the delivery of the audit plan would be reported to the County Treasurer and the Senior leadership Team (as appropriate).</p>
S1	<p>It is suggested that a sentence is added to section nine of the audit charter clearly attributing the term 'Senior Management' to the Council's Senior Leadership Team. An example of such a sentence could be 'For the purposes of the UK Public Sector Internal Audit Standards, the Council's Senior Leadership Team performs the role of the 'senior management'.</p>	<p><b>Completed</b> - The suggested details have been incorporated into the Internal Audit Charter since 2018.</p>
S2	<p>It is suggested the Internal Audit liaises with external audit over the timing of the audits of the key financial systems for the Council and the external clients to ensure clients are not audited by both teams in a relatively short space of time, usually in the last quarter of the financial year. Alternatively, the Service should consider shifting their audits of the key financial systems away from quarter to four to an earlier part of the financial year, say quarter two or three.</p>	<p><b>Completed</b> - Ongoing discussions are held with External Audit to ensure that the timings of key financial audits are co-ordinated.</p>
S3	<p>Consider adding a statement to the individual audit reports stating that the audit has been conducted in accordance with the public sector internal audit standards. Where this is not the case, an alternative statement of non-conformance should be used instead.</p>	<p><b>Completed</b> – A statement has been added to the individual audit report template stating that the audit has been conducted in accordance with the public sector internal audit standards</p>

46. As part of our Internal Audit Quality Assurance and Improvement Framework (QAIP), as well as the *external quality assessment* (conducted every five years); internal assessments are also carried out, as mentioned above. These internal assessments take the following two forms:

- a. *On-going monitoring of the performance of the internal audit activity* - This is an integral part of the day to day supervision, review and measurement of the internal audit activity. On-going monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Mission of Internal Audit, Definition of Internal Auditing, Core Principles and the Code of Ethics; and
- b. *Periodic self-assessment* - On an annual basis, the Chief Internal Auditor will update the Public Sector Internal Audit Standards (PSIAS)/LGAN self-assessment checklist and review evidence to demonstrate conformance with the standards. This self-assessment also incorporates conformance with the Mission of Internal Audit, Definition of Internal Auditing, Core Principles and the Code of Ethics.

47. The results of this year’s updated self-assessment exercise against the current standards and LGAN are summarised below. It can be seen that 94% of the standards are deemed to be fully in place.

Standard			
In Place	Partially In Place	Not In Place	Not Applicable
127 (94%)	3 (2%)	4 (3%)	1 (1%)

48. For those areas of partial/non-compliance a detailed action plan has been produced, although none of these are considered to affect significantly the effectiveness of Internal Audit.
49. Four areas of non-conformance (not in place) were highlighted as part of the self-assessment which will not involve any further action being taken namely:
- a. The Chief Internal Auditor reports to the Head of Internal Audit & Financial Services. Section 151 matters are reported in all instances to the County Treasurer who reports to SLT for all Section 151 matters. Alternative reporting arrangements are detailed within the Internal Audit Charter, should the need arise.
  - b. The Audit & Standards Committee does not approve the Internal Audit budget. This is the responsibility of the County Treasurer via Full Council.
  - c. The Audit & Standards Committee does not approve decisions relating to the appointment and removal of the Chief Internal Auditor, this responsibility lies with the Head of Internal Audit & Financial Services in-conjunction with the County Treasurer. The County Treasurer would also liaise with the Director of Corporate Services in respect a matter of this nature.
  - d. The Audit & Standards Committee does not approve the remuneration of the Chief Internal Auditor. The Pay of the Chief Internal Auditor is in accordance with the Council’s Pay structure, Grading and JE processes which are corporately owned.
50. The one standard which is categorised as “not applicable” related to an external internal audit service provider who acts as the internal audit activity.
51. The full action plan is attached as **Appendix 3** to this report.
52. The work undertaken by the Internal Audit Service during 2018/19 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the Chief Internal Auditor or the Service from delivering the annual Head of Internal Audit opinion for 2018/19.

### Equalities Implications

53. There are no direct implications arising from this report.

## **Legal Implications**

54. There are no direct implications arising from this report.

## **Resource and Value for Money Implications**

55. The net budget of the Internal Audit Section in 2018/19 was £619,310 of which £53,400 related to payments to external providers.

## **Risk Implications**

56. Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Corporate Strategic Risk Register.

## **Climate Change Implications**

57. There are no direct implications arising from this report.

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## **List of Appendices:**

**Appendix 1** - Audit Opinions

**Appendix 2** - Summary of Work Undertaken (**Exempt**)

**Appendix 3** - Compliance with PSIAS & LGAN Self-Assessment 2018/19 Action Plan

## **List of Reference Material**

1. Audit Management System
2. Annual Audit Plan & Strategy 2018/19
3. 2018 Audit Charter
4. Public Sector Internal Audit Standards – revised with effect from 1st April 2017.
5. Local Government Application Note – with effect from 1st March 2019
6. Accounts and Audit (England) Regulations 2015.
7. CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019 Edition).
8. Progress Reports to Audit & Standards Committee & various Internal Audit Report