

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

26 JUNE 2014

**INTERNAL AUDIT WORK FOR THE CHILDREN AND YOUNG PEOPLE'S SERVICES
DIRECTORATE**

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the **internal audit work** performed during the period from 1 March 2013 to 30 May 2014 for the Children and Young People's Services Directorate (CYPS) and to give an opinion on the systems of internal control in respect of this area.

2.0 BACKGROUND

- 2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the Children and Young Peoples Services (CYPS), the Committee receives assurance through the work of internal audit (as provided by Veritau Ltd), as well as receiving a copy of the latest directorate risk register and the relevant Statement of Assurance.
- 2.2 In line with recent practice, this agenda item is considered in two parts. This part considers the work carried out by Veritau and is presented by the Head of Internal Audit. The second part is presented by the Corporate Director – Children and Young Peoples Services and considers the risks relevant to the directorate and the actions being taken to manage those risks.

3.0 WORK CARRIED OUT DURING THE PERIOD MARCH 2013 TO MAY 2014

- 3.1 A summary of the results of audit visits made to schools during the period is provided in **Appendix 1**. Details of the internal audit work undertaken within the directorate are provided in **Appendix 2**.
- 3.2 Veritau has also been involved in a number of other areas of work in respect of the directorate. This work has included:
- (a) providing a series of training courses for school governors on financial controls and the School Financial Value Standard (SFVS);
 - (b) Monitoring and reviewing SFVS returns, producing a report for the School's Forum and drafting the DfE return;

- (c) reviewing LMS Procedure Rules, in conjunction with school representatives and officers from Finance and Management Support, Legal Services, and the Corporate Property Landlord Unit;
 - (d) contributing to training sessions at the termly school bursar conferences;
 - (e) offering advice to schools on tendering and quotation procedures in connection with devolved capital works;
 - (f) publishing Schools' Audit Newsletters to keep schools informed of best practice and recent developments;
 - (g) offering advice to schools and officers in Finance and Management Support during the pilot scheme for paying suppliers by BACS from school bank accounts;
 - (h) publishing advice for schools on counter-fraud arrangements to enable them to comply with the requirements of the recently amended LMS Scheme;
 - (i) carrying out a number of other special investigations that have either been communicated via the Whistleblowers' hotline or have arisen from issues and concerns raised with Veritau by CYPs management.
- 3.3 As with previous audit reports an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in **Appendix 3**.
- 3.4 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau now formally follow up all agreed actions on a quarterly basis, taking account of the timescales previously agreed with management for implementation. **On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.**
- 3.5 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk are reviewed less often and in our experience continue to be satisfactory between audits. Veritau's audit work therefore focuses on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern. The scope of many audits means that a large number of processes are reviewed with many of these being found to be satisfactory or better.
- 4.0 **AUDIT OPINION**
- 4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450)

states that the chief audit executive (CAE)¹ should provide an annual report to the board². The report should include:

- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
- (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
- (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment)
- (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
- (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
- (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating in the Children and Young People's Services Directorate is that it provides **Substantial Assurance**. There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching that opinion.

5.0 **RECOMMENDATION**

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Children and Young People's Services Directorate is both adequate and effective.

MAX THOMAS
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

26 June 2014

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared by Ian Morton, Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

¹ For the County Council this is the Head of Internal Audit.

² For the County Council this is the Audit Committee.

APPENDIX 1

SCHOOL AUDITS UNDERTAKEN DURING THE PERIOD

(1) Audit Visits

Type of School	Audit Opinion					Total
	High Assurance	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance	
Primary / Nursery	11	6	8	3	0	28
Secondary	1	1	1	0	0	3
Special	1	0	2	0	0	3
Pupil Referral Service	2	1	0	0	0	3
Total 2013/14	15	8	11	3	0	37
Percentage 2013/14	40.6%	21.6%	29.7%	8.1%	0	100
Percentage 2012/13	34.8%	37.9%	15.2%	12.1%	0	100

1. The Audit Opinions expressed are defined in **Appendix 3**.
2. There has been a reduction in the number of individual school audit carried out during the year following the introduction of “themed school audits”. Themed audits review a particular issue across a range of schools to identify common issues and best practice. Two of these themed audits were only finalised in early June and have therefore not been included in the list of completed audits in Appendix 2
3. Where the standards of control in a school or other establishment have been assessed as limited or no assurance follow-up visits are made within six months to review the progress that has been made to implement actions and improve controls. As will be seen above, 3 limited assurance opinions have been issued during the year and follow up visits have already been made to two of the schools that fell into that category. These schools have made significant improvements and their systems. One was subsequently reassessed as offering high assurance and the other substantial assurance. A follow-up visits is scheduled for the other schools in this category during the summer term.
4. Common themes identified during many of the audit visits include:
 - evidence not being retained that checks had been carried out to ensure contractors or third parties have the required levels of public liability and employer’s liability insurance (where applicable);
 - contract review schedules not being maintained and/or no evidence in any minutes that governors are reviewing the school’s procured services and contracts;
 - evidence not being retained that the school has completed the appropriate checks of qualifications or the right to work in the UK when making

appointments;

- laptops and memory sticks used by members of staff not being encrypted;
- key policies not being reviewed and updated appropriately or being updated but without reference to the latest guidance;
- people, including staff with financial responsibilities not completing registers of business interests.

(2) Post 16 funding reviews at schools with Sixth Forms

1. Since April 2010, local authorities have been responsible for providing assurance on sixth form funding to the Young Peoples Learning Agency (YPLA) and the Skills Funding Authority. The assurance requirements are set out in a Joint Audit Code of Practice drawn up by the YPLA.
2. During the last year, visits were made to two schools with sixth forms and one was assessed as providing substantial assurance and the other moderate assurance.

Appendix 2

FINAL AUDIT REPORTS ISSUED RELATING TO AUDITS CARRIED OUT IN THE PERIOD MARCH 2013 TO MAY 2014

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken	
A	Family & Friends Care	Moderate	A review of the system for processing payments in respect of Family & Friends Care.	30/10/2013	<p>The main issues identified in this audit related to:</p> <ul style="list-style-type: none"> • the adequacy of financial assessments • the failure to provide adequate guidance to applicants and members of staff • the failure to ensure applicants were made aware of the appeals procedure • the failure to keep social workers properly informed of the decisions made • the retention of key documents on files • the inability to predict the budget for as long as back payments are made 	<p>Six P2 actions and eleven P3 actions were agreed.</p> <p>Responsible Officer: Assistant Director - Children's Social Care Finance officer - CSC Head of Safeguarding</p> <p>Guidance and documentation will be updated for applicants and members of staff</p> <p>Consideration will be given to the role of social workers in the application process for financial support.</p> <p>The standard letter sent to the applicant to inform them of their entitlement will include details of how to appeal</p> <p>A checklist will be created to ensure all documents are retained</p> <p>The policy review will determine eligibility for back dated payments.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
B	Children's Direct Payments	Moderate	A review of the systems for processing and monitoring Children's Direct Payments.	5/11/2013	<p>The main issues identified in this audit related to:</p> <ul style="list-style-type: none"> the DPSS is a dedicated service for the monitoring of direct payments but it is not being used for the monitoring of direct payments within CYPS. best practice is not being shared across the area teams members of staff in the area teams are not fully utilising the information on ICS as part of the checking and monitoring process for direct payments. the controls and processes in place surrounding the payment, reconciliation and monitoring of direct payments within finance and the area teams are not sufficient to prevent and detect when a service user has been overpaid. 	<p>Six P2 actions and two P3 actions were agreed.</p> <p>Responsible Officers: Assistant Director - Strategic Resources, Finance and Management</p> <p>Action will be taken to address the findings although this will, by necessity, be a whole-system review which supports the principles established through the One Council programme in terms of standardisation, removing duplication etc. To this end, we will include colleagues from DPSS, HAS, Health, CYPS and Strategic Resources to achieve a sound and cost-effective solution that meets the needs of parents, disabled children and the Council. Within this context of significant change, there are two fundamental challenges to consider over the next 6-12 months. Firstly, the extent to which compliance is required from parents balancing probity, reputation, complaints with delivering effective care packages. Secondly, the drive for personalisation, both in HAS and CYPS, for integrated assessments for education, health and social care</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						for 0-25 years. The implications of the report will therefore be carefully considered in the design of the new system.
C	Forest Lane Children's Home	High	A review to validate financial and operational controls including those covering cash security, amenity fund, budgetary control, assets, Human Resources, purchasing and petty cash procedures.	14/02/2014	The audit concluded that risks were well managed and that an effective control environment was being operated in the home. No significant issues were identified.	<p>Four P3 actions were agreed.</p> <p>Responsible Officer: Registered Manager</p> <p>The necessary changes and/or improvements to procedures have been made.</p>
D	Nidderdale CRC & Beck House	Substantial	A review to validate financial and operational controls including those covering cash security, amenity fund, budgetary control, assets, human resources, purchasing and petty cash procedures.	20/02/2014	<p>A small number of issues were identified, including:</p> <ul style="list-style-type: none"> the failure to ensure that pre-employment checks are adequately completed the failure to ensure that checks are carried out on contractors' insurance cover. 	<p>Seven P3 actions were agreed.</p> <p>Responsible Officer: Registered CRC Manager Deputy CRC Manager</p> <p>A new safe has been purchased. The inventory stock check will be undertaken by the Business Support Team.</p> <p>A new system for tracking pre-employment checks has been introduced.</p> <p>Appropriate checks on insurance cover will be made and recorded in future.</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
E	County Music Service	Moderate	A review of the systems operated by the County Music Service for making payments to peripatetic music teachers	26/02/2014	<p>The main issues identified in this audit related to:</p> <ul style="list-style-type: none"> the Music Service system is unable to calculate payments without significant manual intervention system access permissions are not sufficiently robust and therefore members of staff are not prevented from accessing confidential information and/or having the ability to amend details the failure to ensure sickness was monitored in accordance with procedures, access to confidential sickness information was restricted and ensuring key HR and payroll records were maintained 	<p>Three P2 actions and five P3 actions were agreed.</p> <p>Responsible Officer: Assistant Director – Strategic Resources</p> <p>A new computer system (Paritor) is being introduced over the next few months. The system has a new in built staff pay section, passwords protection process that may isolate levels of authorisation, school log on facility and live registering by staff.</p> <p>As part of the review, the nature and implementation of variable hours contracts will also be explored.</p> <p>The recording of sickness data on the central spreadsheet has been stopped.</p> <p>Tighter systems for monitoring sickness absence will be introduced.</p> <p>The failure by members of staff to sign in and out is a potential safeguarding issue. The service will therefore work with schools to address this issue.</p>
F	Young People in Custody	Moderate	The audit assessed how effectively the financial	26/03/2014	The issues identified in this audit related to:	Four P2 actions and four P3 actions were agreed.

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		<p>risks relating to the Young People in Custody budget were being managed following the transfer of the function from the Ministry of Justice in April 2013.</p>		<ul style="list-style-type: none"> the level of expenditure compared to the original funding allocation for youth detention accommodation (YDA) with the budget fully committed within the first six months of the financial year; the full cost surrounding YDA not being accounted for or adequately monitored; the current processes in place not being sufficiently robust to enable packages for Remand to Local Authority Accommodation to be prepared and presented to the Court in a timely manner; the limited opportunity for the use of Remand to Local Authority Accommodation due to the lack of suitable alternatives. 	<p>Responsible Officer: Assistant Director – Strategic Resources, Finance & Management Support Assistant Director - Children's Social Care Head of Safeguarding, Children's Social Care Head of Youth Justice Service Assistant Director – Strategic Resources</p> <p>YDA placement numbers will be reported to CYPLT on a monthly basis alongside the overall child placement forecast outturn and numbers. Budget monitoring to be reviewed. Consideration will be given to alternative provision including remand fostering to reduce the cost to the Authority.</p> <p>All Children's Social Care staff will be reminded as to the need for statutory visits to be made to young people who become Looked After Children (LAC) by virtue of a Legal Aid Sentencing and Punishment of Offenders (LASPO) arrangement. These visits must be undertaken within the appropriate timescales and recorded on the Integrated Children's Systems (ICS).</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						<p>The operation of the Placement Panel has recently been reviewed. Where a LAC status needs to be agreed in an emergency outside of the panel process there is now clear line management decision making.</p> <p>Children's social care will review cases where bail packages have been refused due to court concerns about alternative accommodation. The Head of Youth Justice Service is to determine timescales for review of bail packages when bail has been refused.</p>
G	Schools Funding Formula	High	A review of the schools funding formula to ensure that funding allocations are being calculated in a consistent manner and that the schools have received the correct amount of funding for which they are entitled.	28/04/2014	The audit concluded that risks were well managed and that an effective control environment operated in the area. No issues were identified in this audit.	No actions were raised in the audit report.
H	The Ghyll Children's Home	High	A review to validate financial and operational controls including those covering cash security, amenity fund, budgetary control, assets, human resources, purchasing and petty cash	30/04/2014	The audit concluded that risks were well managed and that an effective control environment was being operated in the home. No significant issues were identified.	<p>Five P3 actions were agreed.</p> <p>Responsible Officer: Children's Centre Manager</p> <p>The necessary changes and/or</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			procedures.			improvements to procedures have been made.
I	Fostering & Adoption Service	Moderate	A review of the systems for handling and investigating allegations made against foster carers.	1/05/2014	<p>The issues identified in this audit related to:</p> <ul style="list-style-type: none"> differing practices in the area teams for the filing, recording and updating of key information. As a result in some cases a full audit trail was not available and there was no evidence that all relevant information was being made available to the key people at the relevant strategy and evaluation meetings. the failure to provide information and support to the foster carer under investigation documentation not being retained on file for outcomes meetings the number of available foster carers on the EDT list not being sufficient to meet needs. 	<p>Three P2 actions and three P3 actions were agreed.</p> <p>Responsible Officer: Head of Fostering and Adoption</p> <p>The Fostering Service will agree a consistent filing procedure, a checklist of all those to be informed and actions taken will be agreed, to be completed and signed off before the allegation is closed.</p> <p>Procedures to be updated and reinforced amongst all managers involved, particularly regarding the timeliness of meetings being held and investigations completed.</p> <p>Team Managers are to ensure the Foster Carer is informed in writing of the outcomes and conclusion meeting.</p>
J	Themed Audit - ParentPay	High	An audit of the controls put in place to manage key risks relating to ParentPay. The audit also assessed whether schools are gaining the maximum benefits from using the system.	20/05/2014	<p>It was noted that only a third of the users of ParentPay from the sample selected had attended a ParentPay User Group. Users may therefore not be aware of how to use the system to its full potential. The majority of the schools visited</p>	<p>Four P3 actions were agreed.</p> <p>Responsible Officer: Finance Officer & Schools ICT</p> <p>Not all schools were aware of the dates of the ParentPay meetings so a review will be conducted to see</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					had also not ensured that they had a ParentPay policy in place.	<p>how these can be communicated to schools in the future.</p> <p>The School Finance Manual provides guidance re the development of a fees and charges policy which should incorporate the operation of ParentPay. Consideration will be given as to how this could be incorporated into a regular newsletter or covered at the next User Group meetings.</p>
K	Traded Services for Schools	Moderate	A review of the arrangements for providing the grounds maintenance service.	24/02/2014	<p>The issues identified in this audit included:</p> <ul style="list-style-type: none"> • costs could have been reduced if the approach to the tender exercise and award had been different • the lack of a formal basis for charging individual schools within the Hambleton and Richmondshire area • schools may not be fully aware of the service they are paying for and as such may not be undertaking sufficient monitoring to ensure it is fully received • the inspection visits to sites as part of the client role are not of a sufficient frequency to be able to adequately assess the service being provided 	<p>Three P2 actions and one P3 action were agreed.</p> <p>Responsible Officer: Assistant Director – Strategic Resources, Finance and Management Support</p> <p>There will be a full review of the service as part of the Traded Services offer and in time for the next contract from April 2016.</p> <p>Costing and pricing arrangements will be considered as part of the review of Traded Services during its transformation to SmartSolutions.</p> <p>Monitoring arrangements will also be considered as part of the review of Traded Services during its</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						transformation to SmartSolutions.
L	BAFEY System	High	A review of the BAFEY system for making payments to early years providers are accurate	20/8/13	The audit concluded that risks were well managed and that an effective control environment was being operated. No significant issues were identified.	<p>Three P3 actions were agreed.</p> <p>Responsible Officers: Senior Accounting Technician Finance Manager Early Years Education Officer</p> <p>The necessary changes and/or improvements to procedures have been made.</p>

Audit Opinions and Priorities for Actions

Audit Opinions	
<i>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</i>	
<i>Our overall audit opinion is based on 5 grades of opinion, as set out below.</i>	
Opinion	Assessment of internal control
<i>High Assurance</i>	<i>Overall, very good management of risk. An effective control environment appears to be in operation.</i>
<i>Substantial Assurance</i>	<i>Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.</i>
<i>Moderate assurance</i>	<i>Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.</i>
<i>Limited Assurance</i>	<i>Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.</i>
<i>No Assurance</i>	<i>Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.</i>

Priorities for Actions	
<i>Priority 1</i>	<i>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.</i>
<i>Priority 2</i>	<i>A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.</i>
<i>Priority 3</i>	<i>The system objectives are not exposed to significant risk, but the issue merits attention by management.</i>