

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

25 JUNE 2015

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 year ended 31 May 2015 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 This agenda item is considered in two parts. This first report 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 and considers the risks relevant to the directorate and the actions being taken to manage those risks.

**3.0 WORK CARRIED OUT DURING THE YEAR ENDED 31 MAY 2015**

- 3.1 The audit of schools has changed in recent years, with a reduction in the number of individual school audits being carried out. The majority of audit work within schools is now performed as part of themed audits, where a specific topic is reviewed across a range of schools. During these audits feedback is provided to each school visited, but the audit report is issued to CYPS and includes common issues or best practice. CYPS then produces a response which is aimed at improving standards across all schools.
- 3.2 A small number of school audits still take place, although these are now targeted at higher risk areas, and as expected have resulted in lower assurance levels compared to previous years. A summary of the results of individual school audits carried out during the period is provided in **appendix 1**. Details of the other internal audit work undertaken within the directorate are provided in **appendix 2**.
- 3.3 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) publishing advice for schools on counter-fraud arrangements to enable them to comply with the requirements of the recently amended LMS Scheme;
- (h) 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.

3.4 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**.

3.5 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.**

3.6 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 with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

#### 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)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. 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

9 June 2015

## **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.

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<sup>1</sup> For the County Council this is the Head of Internal Audit.

<sup>2</sup> For the County Council this is the Audit Committee.

## INDIVIDUAL SCHOOL AUDITS UNDERTAKEN DURING THE YEAR

### (1) Audit Visits

Name of School	Audit Opinion	Findings
Scarborough Pupil Referral Service	Substantial	One P2 action and seven P3 actions
Moorside Junior School Follow Up	High	Six P3 actions
Welburn Hall School	Limited	Two P2 actions and fourteen P3 actions
Welburn Hall School Follow Up	High	Three P3 actions
Askwith School and Hart Alliance	Substantial	Eight P3 actions

1. The Audit Opinions expressed are defined in **Appendix 3**.
2. An additional 2 schools have commissioned an audit directly from Veritau.
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, 1 limited assurance opinion was given during the year and the follow up visit identified significant improvements.
4. Common themes identified during many of the audit visits are similar to issues identified in some of the themed audits including:
  - evidence not being retained of checks 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;
  - registers of business interests not being completed.

## AUDIT REPORTS ISSUED IN THE YEAR TO 31 MAY 2014

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Themed audit (schools) – maintained nurseries	Moderate	A review of key controls operating in maintained nurseries and an examination of best practice guidance.	June 2014	<p>Common issues identified in this audit included:</p> <ul style="list-style-type: none"> <li>• key policies not being in place (Charging Policy, Admissions Policy) or available on the school's website</li> <li>• nurseries not always ensuring that parental agreement forms had been fully completed</li> <li>• nurseries failing to maintain accurate headcount information</li> <li>• inconsistencies in the way many nurseries operate, particularly in relation to obtaining evidence of entitlement, attendance, the allocation of places, and the provision of schools meals.</li> </ul>	<p><b>One P2 action and sixteen P3 actions were agreed.</b></p> <p><b>Responsible Officer</b> Finance Manager – Schools and EY</p> <p>Charging Policy - Section 24 of the Schools Finance Manual contains advice regarding charging and this refers to Early Years. This advice will be revised to specifically mention and emphasise nursery provision.</p> <p>Schools to be reminded of publicising key policies on their websites.</p> <p>A reminder will be issued to nursery providers explaining why it is important for parental agreement forms to be completed and that they are kept in an agreed location.</p> <p>Schools to be reminded of Admissions Policy.</p> <p>New guidance will be issued covering the key areas of inconsistency identified during the audit to ensure schools are aware of requirements and best practice.</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
B	Themed audit (schools) – business continuity	Moderate	A review of the arrangements to develop and maintain effective Business Continuity processes.	June 2014	<p>The issues identified in this audit included:</p> <ul style="list-style-type: none"> <li>• 40% of the schools visited stated that they would refer to the Emergency Response Guide but had no further business continuity plans in place</li> <li>• there was little evidence to suggest that plans had been discussed with governors or communicated to staff</li> <li>• 20% of schools visited failed to maintain accurate asset registers in compliance with the Schools Finance Manual</li> <li>• not all schools visited stored IT back ups securely. Many of those which did have secure back up arrangements failed to ensure they were periodically tested to confirm the data was recoverable should it be required.</li> </ul>	<p><b>Four P2 and four P3 actions were agreed.</b></p> <p><b>Responsible Officer:</b> Assistant Director – Strategic Resources, Finance &amp; Management Support</p> <p>New Business Continuity guidance to be provided to schools</p>
C	Woodleigh Children’s Centre	High	An establishment audit to validate financial and operational controls including those covering	September 2014	Controls were working effectively although VAT receipts for purchase card payments were not being retained.	<p><b>Five P3 actions were agreed</b></p> <p><b>Responsible Officer:</b> Centre Manager</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			contracting, income and banking, and IT security.			Staff to be reminded of the need to obtain VAT receipts.
D	Morton on Swale CRC	Substantial	An establishment audit to validate financial and operational controls including those covering contracting, income and banking, and IT security.	November 2014	Controls were generally effective. However, issues were identified with the administration of petty cash including a failure to carry out regular reconciliations and the lack of supporting receipts. VAT receipts for purchase card payments were not being retained and there were also issues with ordering procedures.	<p><b>Seven P3 and one P2 action was agreed</b></p> <p><b>Responsible Officer:</b> Centre Manager</p> <p>A new petty cash procedure has been introduced will a clear process for reconciliation prior to transfer of responsibility on shift changes. Members of staff have been reminded of the appropriate procedures.</p>
E	Stepney Road CRC	High	An establishment audit to validate financial and operational controls including those covering contracting, income and banking, and IT security	March 2015	Controls were working effectively although VAT receipts for purchase card payments were not being retained. It was also found that insurance cover had not been checked for some contractors employed at the centre.	<p><b>Five P3 actions were agreed</b></p> <p><b>Responsible Officer:</b> Centre Manager</p> <p>Staff will follow VAT advice provide and will request details of insurance cover from those contractors identified.</p>
F	NYCC County Catering	Substantial	The audit reviewed the controls in place to manage the delivery of the county catering service, including charging arrangements, inspections and training.	February 2015	Controls were generally effective. However, service level agreements are not in place for all schools and not all schools had received monitoring visits. Where monitoring visits had taken place there was limited evidence that issues identified had been	<p><b>Seven P3 actions were agreed</b></p> <p><b>Responsible Officers:</b> County Catering Manager Assistant Director – Strategic Resources, Finance and Management Support</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					resolved.	All schools will be required to sign new documents as a result of the SmartSolutions online system. Funds have been obtained from the Schools Forum to assist in monitoring and to ensure compliance with legislation. A review of processes will take place as part of a larger catering, cleaning and grounds maintenance services review and the reviews within 2020 Finance and SmartSolutions.
G	Schools Funding Formula	High	The audit examined whether funding allocations were calculated in a consistent manner and individual schools received the correct funding to which they were entitled.	May 2015	Effective controls were found to be in place.	<b>No actions identified.</b>
H	Themed audit (schools) – governance arrangements	Reasonable	A review of the governance arrangements in schools. The auditors visited a sample of schools and compared actual governance practices against the Schools Financial Value Standard (SFVS) and the requirements set out in the governors’	June 2015	Overall it was found that the majority of schools could demonstrate that the required governance processes were being carried out. However, a number of common issues were found at some schools. These included little evidence of challenge from governors, a failure to adopt latest guidance or model policies, poor minute records, and the lack of	<b>One P2 and twelve P3 actions were agreed</b>  <b>Responsible Officer:</b> Assistant Director – Strategic Resources Assistant Director – Education and skills  Recommendations will be part of a report to the Education Partnership (Schools Forum) in September 2015.



System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			handbook.		appropriate declarations of interests.	This will set out the expected standards required from governing bodies. Issues identified will also be communicated to the relevant teams within the Council to ensure issues are addressed at schools and where appropriate additional training is provided.
I	Themed audit (schools) - procurement	Reasonable	The audit reviewed procurement processes operating within schools to ensure they were complying with Contract Procedure Rules and best practice guidelines.	June 2015	Most schools within the sample were generally compliant with the Contract Procedure Rules, although a number of common issues were identified. Contracts had been awarded using criteria (other than cost) which had not been determined in advance. On occasions contracts had also been awarded without the necessary quotations being obtained, or where the process followed had not been properly documented. Some contracts had not been signed appropriately and on occasions evidence had not been obtained to show that contractors had the required DBS clearance or had suitable insurance cover.	<p><b>Two P2 and five P3 actions were agreed</b></p> <p><b>Responsible Officers:</b> Assistant Director – Strategic Resources CYPS Procurement Officer</p> <p>A note will be sent to schools reminding them of requirements and the specific issues identified. Additional training will be provided to cover key areas within the report. The LMS Rules and CPRs will be reviewed to ensure clarity of understanding by schools and to ensure that they correspond with the finance rules.</p>
J	Themed audit (schools) – information governance	Limited	A review of compliance with Data Protection and Freedom of Information Act legislation and best	June 2015	Schools were found to have good procedures in place to inform staff of data security responsibilities and to update personal data.	<p><b>Five P2 and one P3 action was agreed</b></p> <p><b>Responsible Officer:</b></p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			practice guidance. The audit involved sending a questionnaire to 70 schools and following this up with visits to a sample of those who responded.		However a significant number of schools were not fully aware of their data management responsibilities and did not have all of the appropriate policies in place. At least a quarter of schools were also not aware that encryption was available for ICT equipment such as memory sticks and laptops.	Assistant Director – Strategic Resources, Finance & Management Support  Information to be sent to all schools before the end of term highlighting information governance responsibilities. A variety of sources to be used to provide information including bursar conferences and sharing information with staff that visit schools.
K	Themed audit (schools) - Pupil Premium	Substantial	The audit examined the procedures in 15 schools with varying levels of pupil premium funding. The audit reviewed the processes for determining how pupil premium funding will be used, and the monitoring and reporting arrangements.	June 2015	All schools in the sample had identified staff and governors with pupil premium responsibility. All schools had evidence of the review of the impact of pupil premium expenditure on the school's website and had reported this to governors. However, improvements were required in some schools where changes in pupil premium funding had not been reflected on the school's website, and also where there was little evidence of consultation with governors and parents on the use of the pupil premium.	<b>Five P3 actions were agreed</b>  <b>Responsible Officer:</b> Assistant Director – Strategic Resources  Schools to be reminded of the need to report the final pupil premium received for a financial year. To liaise with Governor Support and Education and Skills to ensure appropriate advice is given to schools re the involvement of Governors and parents regarding decisions on the use of Pupil Premium.
L	Children's Direct Payments	Limited	A review of the processes in place for the processing and monitoring of direct payments together with	June 2015	Procedures in place are unclear, with a variety of procedure documents that are contradictory, and which are applied differently in the different areas. The	<b>Five P2 and eight P3 actions were agreed</b>  <b>Responsible Officer:</b> Assistant Director – Strategic

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			a review of the interface between CYPS and the Direct Payments Support Service (DPSS)		procedure in place for checking to ensure that carer's have received DBS clearance is not adequate and the monitoring of direct payments needs be improved to ensure that the carers are identified and that timesheets (where possible) are obtained to prove that the funds have been used appropriately. There is little evidence that appropriate action is taken if documentation is not provided as required.	Resources Assistant Director – Children and Families and Business Support.  Guidance will be improved, updated and placed on the intranet. Refresher training has already been carried out for Finance Admin staff covering the issues identified. Key workers to be reminded of responsibilities, particularly around DBS clearance, reconciliations and the requirements for reviews and submission of documentation.
M	Free School Meals	Moderate	The audit reviewed the procedures in place to ensure that free school meals are only provided to pupils who remain entitled. The audit also reviewed the information on free schools meals provided within the schools census.	June 2015	Good processes are in place for checking eligibility for free school meals, but there are discrepancies in the number of eligible pupils recorded on the database and the information on school census returns. These differences are mainly as a result of schools failing to communicate changes to the welfare team. The current process for reviewing entitlement is also very time consuming.	<b>Two P2 and two P3 actions were agreed</b>  <b>Responsible Officer:</b> Assistant Director – Strategic Resources Business Support Manager  The move to the new Synergy system will assist improvements and once introduced the options for data matching will be reviewed. Monitoring has been reduced to half termly as a trial to check how this impacts on workload and results.

## Audit Opinions and Priorities for Actions

<b>Audit Opinions</b>	
<p>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.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
<b>Opinion</b>	<b>Assessment of internal control</b>
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	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.
Reasonable Assurance (previously moderate)	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.
Limited Assurance	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.
No Assurance	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.

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