

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

23 JUNE 2016

**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 2016 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 work of internal audit is reported in accordance with an agreed programme of work with this report covering audits finalised in the 12 months from 1 June 2015 to 31 May 2016. 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 2016

- 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 Details of internal audit work undertaken within the directorate and the outcomes of these audits are provided in **appendix 1**.
- 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 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) keeping 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 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 2**.
- 3.5 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau now follow up all agreed actions on a regular 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)¹ should provide an annual report to the board². The report should include:

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

² For the County Council this is the Audit Committee.

- (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 2016

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.

AUDIT REPORTS ISSUED IN THE YEAR TO 31 MAY 2016

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Traded Services for Schools	High	A review of the new system introduced for delivering traded services to schools (SmartSolutions). The new arrangements include a centralised support unit and the introduction of a new customer relationship management system.	October 2015	<p>SmartSolutions Online is a relatively new service that is continuing to evolve. The service has developed suitable processes during its first year of operation and these are being applied effectively. The key findings of the audit were:</p> <ul style="list-style-type: none"> • Charges for the various traded services are reviewed frequently to ensure they continue to be commercially viable • Schools and other service users all have the capability to monitor the delivery of services • Generally the user access to the SmartSolutions Online system is well controlled. However, when an account is disabled the reason is not recorded. 	<p>One P3 action was agreed</p> <p>Responsible Officer SmartSolutions Performance and Quality Officer</p> <p>The issue has been referred to the systems provider however, SmartSolutions is also looking to develop a new website for trading with schools and other audiences and the result of the audit will be taken into the scoping requirements for the new site.</p>
B	Developing Stronger Families Review 1	High	The DCLG framework for the Troubled Families Programme requires internal audit to carry out a representative sample of	May 2016	Suitable evidence was available to support the claim for each family within the sample. The method used to identify families is based around property numbers which could become an issue if	<p>One P3 action was agreed.</p> <p>Responsible Officer DSF Co-ordinator</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			at least 10% of results for each claim. The aim of these checks is to ensure families are eligible for inclusion in the programme and that appropriate progress has been achieved against the Outcome Plan. This audit covered the claim to September 2015.		the family moved repeatedly or if there is more than one family living in a property.	A unique numbering system that identifies the relationships involved with the at risk children has been agreed and is in the process of implementation.
C	Special Educational Needs	Substantial	<p>The audit reviewed the systems established following the delegation of SEN budgets to schools. This included reviewing the controls in place to ensure:</p> <ul style="list-style-type: none"> allocations to schools for Element 3 Top Up funding are correctly calculated systems are updated in a timely fashion to ensure accurate payments are made budget variances are identified 	May 2016	Generally procedures were found to be good. One issue was identified with the monitoring of statement reviews and in some cases reminders had not been sent to schools. Therefore it was not possible to confirm that all pupils with a SEN statement had received an annual review. For those pupils where the change in SEN funding is not planned this can also result in delayed payments to schools.	<p>One P2 and three P3 actions were agreed.</p> <p>Responsible Officers Assistant Director – Inclusion and Assistant Director – Strategic Resources Senior Commissioning and Contracts Officer</p> <p>Reminders are now sent. However, a position statement is being drawn up to check the status of all current statements and Education Health and Care Plans (EHCPs).</p> <p>The process for updating funding allocations has been amended.</p>

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			<ul style="list-style-type: none"> payments are not made to schools where there is no agreed SEN statement in place. 			
D	High Needs SEN	Substantial	<p>The audit reviewed the controls in place to ensure:</p> <ul style="list-style-type: none"> allocations to schools for Element 3 Top Up funding are correctly calculated systems are updated in a timely fashion to ensure accurate payments are made budget variances are identified payments are not made where there is no agreement in place. 	May 2016	<p>The calculation of funding was found to be accurate. However, there are educational establishments in receipt of Element 3 Top Up funding from the County Council for students over the age of 16 where there is no signed agreement in place. Individual placement agreements had not been issued in all of the sample cases or had been issued with incorrect amounts.</p>	<p>Two P2 and Two P3 actions were agreed.</p> <p>Responsible Officers Assistant Director – Inclusion and Assistant Director – Strategic Resources Senior Commissioning and Contracts Officer</p> <p>Action was taken by following up with the providers to increase returns. This had some success, notably with external providers. However, it remains and issue and therefore advice is being obtained Legal Services regarding possible sanctions for those providers who do not return signed contracts.</p> <p>The Contracts' Register is now updated as soon as a new contract is issued. When combined with the new "funding sheet process" this will achieve improved accuracy. The errors identified in the audit have all been corrected.</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
E	Themed School Audit - Consistent Financial Return	High	The audit reviewed the arrangements schools have put in place to complete and submit the CFR. The audit also examined the accuracy of the figures and the availability of supporting evidence.	May 2016	Generally procedures were found to be good and all the schools in the sample felt they received appropriate support from the County Council. Issues were identified in some schools where there was no evidence to support accrual figures.	<p>Three P3 actions were agreed.</p> <p>Responsible Officers Head of Finance – Schools FMS Team Manager</p> <p>Year end closedown guidance for schools will be reviewed to ensure schools are aware of the need to retain evidence of accruals.</p>
F	Themed School Audit - Value for Money	Substantial	The audit reviewed the actions taken by a sample of schools to achieve Best Value. This included a review of benchmarking, budget monitoring, SFVS returns and the level of challenge provided by governing bodies to achieve efficiencies.	May 2016	<p>The audit identified a number of areas of good practice including the review of contracts, purchase of an electronic asset management system, restructuring, use of short term contracts and shared use of facilities.</p> <p>The majority of schools use NYCC benchmarking data and almost all of schools visited collaborate with others. However, in a number of schools governing body minutes did not provide evidence of suitable challenge from governors. Some schools were also unable to demonstrate that reports are provided to governors in advance of meetings hence restricting the ability of governors to provide the appropriate level of challenge.</p>	<p>Three P2 actions were agreed.</p> <p>Responsible Officer FMS Team Manager</p> <p>The issues identified in the audit are to be discussed with the Governors' Unit with the aim of reviewing both the finance training provided to governors and the guidance given to clerks.</p>

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G	Children's Direct Payments	Limited	The audit reviewed whether; payments were made based upon correctly completed and authorised documentation; payments were correctly calculated, made in a timely manner and to a person entitled to receive the payment; and there were effective monitoring arrangements in place.	May 2016	<p>A number of issues were identified, mainly relating to the quality of monitoring. Monitoring is mainly carried out via area offices and in many cases the quality of monitoring varies between different areas. Examples include:</p> <ul style="list-style-type: none"> • monitoring of some direct payments is not being undertaken until initial reviews have been completed, however initial reviews are not being undertaken promptly • current monitoring arrangements that are not sufficiently robust to be confident that the assessed needs of the child are being met and that the direct payment is being used appropriately • recipients of direct payments are not submitting the necessary documentation nor completing the DP Monitoring Form • inconsistent monitoring of managed accounts • a number of accounts with a sum in excess of the nine 	<p>Eight P2 actions and six P3 actions were agreed.</p> <p>Responsible Officer Assistant Director – Inclusion</p> <p>The last audit report highlighted a number of issues and an action plan was drawn up. This plan included a training session which was held on 2 June 2015 and reinforced the roles and responsibilities of the staff who carried out most of the work, such as payments and monitoring. However, despite this training, the expected improvements did not occur. Aware of this, CYPS Management, decided to review once again the operation of the service which is carried out largely by Business Support Staff in various areas around the county, including a central finance admin team, who liaise with and provide information to social workers working with disabled children and their families. When it was clear that this was not happening and that monitoring was not taking place, CYPS Management intervened and looked at a change in how the service was undertaken. After a period of investigation, it was decided to request the HAS Direct Payments Service to undertake this role. A full scope for delivering the service has been drawn</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					week contingency where there was no evidence of how that funding was used.	up as has other new documentation. Work has been undertaken to enable HAS workers access to the Children's Services database and this has now been achieved with implementation expected in June. A copy of these audit findings have been sent to the new service to ensure that all actions are covered, but they will be reviewed by the Assistant Director – Inclusion at quarterly intervals, beginning in September 2016.
H	Home To School Transport	Reasonable	<p>The audit reviewed the systems in place for managing the service. This included ensuring that:</p> <ul style="list-style-type: none"> the existing policies and procedures allowed the County Council to obtain best value where the transport was provided by taxi firms and there was a contract variation the Authority was paying the correct amount. 	May 2016	<p>The County Council has a duty to provide free home to school transport to eligible school children, however, transport is currently arranged without application and may therefore include children who do not actually use the service. This differs from a number of other LA's within the region. The County Council also does not charge for replacement passes unlike some other LA's.</p> <p>Contracts are being awarded to taxi operators where the cost of providing the transport is sometimes significantly higher than that estimated by IPT. Procedures used within IPT for arranging contracts with taxi operators may not always provide</p>	<p>Four P2 actions and three P3 actions were agreed.</p> <p>Responsible Officers Head of Business Support Acting Head of Integrated Passenger Transport Assistant Director – Inclusion</p> <p>The potential savings from requiring applications will be considered as part of a review. Charging for replacement passes will be considered once the online payment system is in place.</p> <p>Decision-making processes within CYPS for specialist transport will be reviewed, as this is the key to incurring the costs. The review will also look at issues regarding when contracts change and why these are extended in</p>

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					best value. Modifications to contracts use an out of date system to calculate additional mileage, and the existing methodology may not assist in obtaining the best price.	some cases. This will bring some additional challenge into the process. The methods used to tender for contracts will be reconsidered with the aim of improving response levels. Options for a new route planner will be considered.
I	Catering fresh produce contract	Reasonable	<p>The audit examined whether:</p> <ul style="list-style-type: none"> • invoices from contractors are checked for accuracy before payment; • retrospective rebate payments are calculated correctly and collected; • contract and performance monitoring is effective • there is a service continuity plan in place should one of the contractors fail to fulfil its obligations. 	May 2016	<p>The service is highly dependant on a small number of contractors and does not have any continuity plans in place to ensure services can be maintained. Contractors have not provided any documentation that would explain how they would notify establishments of an instruction from a statutory body or similar to withdraw a product or communicate any health alerts, although this is a requirement of the contract.</p> <p>There is no formal process to raise retrospective rebate payments and as a result payments have been received late or for incorrect amounts. The checking of prices is carried out by the service manager but there is no audit trail to identify what if anything has been checked. It is unclear if the current process would identify any overcharging by contractors</p>	<p>Four P2 actions and five P3 actions were agreed.</p> <p>Responsible Officers Head of Traded Services</p> <p>Service Continuity Plan will be drawn up and in place for the new academic year.</p> <p>Each contractor will be asked to produce documentation explaining such mechanisms for dealing with an instruction from a statutory body or similar to withdraw a product or communicate any health alerts as required by the contract.</p> <p>A formal process will be in place by the end of the current academic year to ensure that retrospective rebate payments are raised in a timely manner, that they are raised correctly and that they are all raised in the same way.</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						Advice is being sought from the council's procurement service to ascertain how best to manage the contracts and ensure the County Council receives value for money. The results of this process will be implemented during the autumn term 2016.
J	Developing Stronger Families Review 2	High	The DCLG framework for the Troubled Families Programme requires internal audit to carry out a representative sample of at least 10% of results for each claim. The aim of these checks is to ensure families are eligible for inclusion in the programme and that appropriate progress has been achieved against the Outcome Plan. This audit covered the claim to January 2016.	May 2016	Suitable evidence was available to support the claim for each family within the sample	No actions identified.

Audit Opinions and Priorities for Actions

Audit Opinions	
<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>	
Opinion	Assessment of internal control
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	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.

Priorities for Actions	
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.