

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

29 SEPTEMBER 2016

INTERNAL AUDIT WORK FOR THE HEALTH AND ADULT 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 August 2016 for the Health and Adult Services (HAS) directorate 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 HAS, the Committee receives assurance through the work of internal audit (as provided by Veritau), 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 – Health and Adult Services and considers the risks relevant to the directorate and the actions being taken to manage those risks.

**3.0 WORK DONE DURING THE YEAR ENDED 31 AUGUST 2016**

- 3.1 Details of the internal audit work undertaken for the directorate and the outcomes of these audits are provided in **Appendix 1**.
- 3.2 Veritau has also been involved in carrying out a number of assignments which have not resulted in the completion of an audit report. This work has included special investigations that have either been communicated via the Whistleblowers' hotline or have arisen from issues and concerns referred to Veritau by HAS management. We held a one day workshop with the Quality and Engagement team and provided training and advice to members of staff involved in the day to day running of Amenity Fund accounts. Finally, we have provided support to directorate management in respect of a number of safeguarding alerts and other matters.
- 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 2**. Some of the audits undertaken in the period focused on value for money or the review of specific risks so did not have an audit opinion assigned to them.

- 3.4 It is important agreed actions are formally followed up to ensure that they have been implemented. Veritau 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.**
- 3.5 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 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 Health and Adult 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.

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<sup>1</sup> The PSIAS refers to the Chief Audit Executive. This is taken to be the Head of Internal Audit.

<sup>2</sup> The PSIAS refers to the board. This is taken to be the Audit Committee.

## 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 Health and Adult Services Directorate is both adequate and effective.

Max Thomas  
Head of Internal Audit

Veritau Ltd  
County Hall  
Northallerton

1 September 2016

## **BACKGROUND DOCUMENTS**

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

Report prepared by Stuart Cutts, Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

## FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 AUGUST 2016

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Visits to seven care providers: <ul style="list-style-type: none"> <li>• Dunollie Nursing Home (Scarborough)</li> <li>• Ellershaw House (Grewelthorpe)</li> <li>• Combehay Scarborough</li> <li>• The Orchards Wistow</li> <li>• Henshaws Harrogate</li> <li>• Conroy Close Easingwold</li> <li>• Craegmore Priory (The Whitby Scheme)</li> </ul>	Various	We completed a programme of audit visits to care providers to ensure: <ul style="list-style-type: none"> <li>• financial transactions of service users are recorded correctly and in accordance with the care provider's policies and procedures;</li> <li>• all expenditure relating to service users is appropriate and properly evidenced;</li> <li>• financial arrangements ensure that the property of service users is protected.</li> </ul>	Various	<p>Overall arrangements were found to be good with effective controls operating in the homes visited. Four of the seven homes were given a high assurance opinion. Three homes were given substantial assurance.</p> <p>We found one provider had allowed one of the residents to accumulate a debt (to the provider) on two separate occasions by failing to deal with the residents finances in an appropriate manner. Those debts totalled £13.5k.</p> <p>We also found some instances where providers were not fully complying with their own policies in that they were failing to carry out sufficient checks of the cash held by residents and were not completing reconciliations of accounts.</p>	<p><b>One P2 and four P3 actions were agreed</b></p> <p><b>Responsible Officer</b> <b>Assistant Director – Quality and Engagement</b></p> <p>The Quality and Engagement Team discussed the issues identified with the homes in question and worked as necessary to ensure any required improvements were made.</p>

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B	Community Support Budget spreadsheets	No opinion	<p>We were asked to look at the Community Support Budget (CSB) spreadsheets which are used by HAS as a budget and forecasting tool. The Council uses approximately 55 of these spreadsheets.</p> <p>Some concerns had been expressed about the robustness of some of the processes, data and calculations contained within some of the spreadsheets. The spreadsheets involve a number of different departments of the Council working together effectively.</p>	December 2015	We provided detailed feedback to relevant officers to highlight the issues found. We also made recommendations to help improve arrangements for the future.	<p>Officers used our feedback to improve the procedures and controls operating in respect of the CSB spreadsheets.</p> <p>In the future, the Council plans to use the Controc system to replace these spreadsheets. It should therefore be possible to produce the required budget information automatically.</p>
C	Public Health	Substantial Assurance	<p>The audit reviewed the procedures and controls in place to ensure:</p> <ul style="list-style-type: none"> <li>a public health budget was produced for 2015/16 in line with the council's financial regulations, with clear links to each public health contract and supported by sound and documented</li> </ul>	January 2016	<p>The audit found good progress has continued to be made in developing the required systems and procedures.</p> <p>The council's new budget procedures provide an opportunity for the designated budget managers within the Public Health Service to take full responsibility for the preparation and monitoring of their budgets.</p> <p>We looked at the Living Well (formerly Targeted Prevention) and the Stronger</p>	<p><b>Two P2 and two P3 actions were agreed</b></p> <p><b>Responsible officer:</b> <b>The Director of Public Health</b></p> <p>Public Health budget holders have received targeted training. Measures were taken to ensure the 2015/16 budget setting processes addressed all of the weaknesses identified.</p> <p>Work will be undertaken with the</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>assumptions</p> <ul style="list-style-type: none"> <li>robust performance management arrangements were in place for the substance misuse contract</li> <li>all actions arising from the previous 2014/15 Public Health audit had been completed</li> <li>new schemes were being planned and delivered to maximise public health outcomes.</li> </ul>		<p>Community Projects. Both projects have progressed since last year. There is still some further work to be completed by both the Living Well and Stronger Communities teams to improve reporting procedures and to help evidence the achievement of desired public health outcomes.</p> <p>Weight management programmes have been developed with the district councils. There may be scope for these programmes to be extended so as to help address a number of other related outcomes.</p>	<p>Living Well and Stronger Community teams to agree ways of measuring public health outcomes.</p> <p>After 12 months of the weight management programmes there will be a period of consultation with the district councils. Teesside University will also be carrying out a formal evaluation of the programmes. Once this work is completed the Public Health Team will develop a service specification for procurement.</p>
D	Amenity funds	No opinion	<p>Amenity funds are operated for the benefit of people who receive care in County Council residential, respite and day centres.</p> <p>The directorate oversees 29 such funds. A policy exists which provides guidelines for the use of the amenity fund and the records and accounts that are required to be kept.</p> <p>Our work reviewed all 29 amenity funds to ensure they had been administered</p>	April 2016	<p>We found only a relatively small number of the funds had been completed to a good standard.</p> <p>Spreadsheet income and expenditure records were not being completed in line with expected practice. Information was incomplete and/or was not to the necessary standard. For certain transactions it was unclear whether the expenditure was appropriate. A number of other weaknesses were identified in individual funds.</p>	<p><b>Three P2 and one P3 actions were agreed</b></p> <p><b>Responsible officer:</b> <b>Directorate Finance Manager (HAS) &amp; Head of Provider Services (HAS)</b></p> <p>There will be a full review of the present policy.</p> <p>Formulas within the spreadsheet will be locked so that they cannot be altered. A new spreadsheet will be used for each year (October to September).</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>in accordance with the agreed policy and procedures. In each case we checked to see that income and expenditure statements and balance sheets had been properly completed.</p>			<p>A programme of training will be delivered to managers and administration staff and will cover the level of accounting detail that is necessary.</p> <p>Action will be taken to ensure the accounts are only used for the intended purposes and not used for cheque cashing purposes.</p> <p>The existing cash limit may be increased from £100 to £250.</p>
E	Scarborough and District Mencap	No opinion	<p>Scarborough and District Mencap provides a range of services to people with learning disabilities (including day care, respite care and flexible support). The County Council has a contract with the charity for the provision of support to 127 service users.</p> <p>The purpose of this review was to examine the systems and governance arrangements operating at the charity.</p>	April 2016	<p>Scarborough and District Mencap had requested short-term financial support from the County Council as it was suffering some cash flow difficulties.</p> <p>The County Council provided the short term advance funding on condition that Veritau were given access to examine the charity's management arrangements and financial procedures. We provided the County Council with a comprehensive governance report. A number of weaknesses in procedures were identified and improvements recommended.</p>	<p><b>A number of recommendations were raised.</b></p> <p>Council officers have been using the report as part of the ongoing management of the contracts with Scarborough and District Mencap.</p> <p>The report was also shared with Scarborough and District Mencap to help them to introduce changes to address the weaknesses highlighted in the report.</p>
F	Domiciliary Care	Substantial Assurance	At the end of 2014, the County Council had contracts with over 100	May 2016	The lessons learnt from phase 1 were being used to inform phase 2.	<b>One P2 and six P3 agreed findings:</b>

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			<p>separate providers of domiciliary care services. The Council had completed an initial 'phase 1' of re-procuring some of these contracts and at the time of the audit was about to commence 'phase 2'.</p> <p>The purpose of the audit was to review progress and to consider whether:</p> <ul style="list-style-type: none"> <li>• The authority had gained an understanding of the current care market conditions and was using that knowledge during 'phase 2'.</li> <li>• The lessons learnt document compiled after phase 1 was being used to inform phase 2.</li> <li>• The procured contracts included effective contract management arrangements</li> </ul>		<p>A number of other areas / factors were highlighted for further consideration, including:</p> <ul style="list-style-type: none"> <li>• The increasing number of new Direct Payments.</li> <li>• The lack of a comprehensive communications plan prior to the procurement process.</li> <li>• Delays in commissioning care and support for clients.</li> <li>• The likelihood of TUPE applying and its implications.</li> <li>• Improving data quality to develop accurate forecasts of domiciliary care requirements.</li> </ul>	<p><b>Responsible officer:</b>  <b>Assistant Director,</b>  <b>Commissioning Locality Head of Commissioning (Scarborough and Ryedale)</b></p> <p>The implications of increasing Direct Payments will be considered before procurement in that area starts.</p> <p>A Communication Lead has been appointed to the team.</p> <p>Arrangements will be made within HAS to provide sufficient resources at the time of future procurements.</p> <p>More empowerment will be offered to Brokerage officers.</p> <p>There will be a better understanding of how and when TUPE will apply in future.</p> <p>The Head of Business Change will lead the 'phase 2' procurement.</p>
G	Care Act (Implementation and Service Changes)	Substantial Assurance	The purpose of this audit was to provide assurance to management that:	May 2016	We reviewed a sample of carers and clients applications to determine if the assessments carried out complied with the Care Act eligibility criteria.	<p><b>One P2 agreed finding:</b></p> <p><b>Responsible Officer:</b>  <b>Benefits, Assessments and</b></p>

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			<ul style="list-style-type: none"> <li>The eligibility criteria for both clients and carers have been implemented</li> <li>The criteria within the universal deferred payments scheme are being adhered to</li> </ul>		<p>Deferred payment agreements should be provided to clients before their 12 week disregard period has finished. We found a number of deferred payment applications that had not resulted in an agreement by the time the applicants 12 week disregard had ended. However, these cases were outside the control of the Council.</p> <p>The Council uses spreadsheets for deferred payments monitoring. We found the spreadsheet included the incorrect equity limit.</p>	<p><b>Charging Manager.</b></p> <p>The deferred payments monitoring spreadsheets will be amended to reflect the correct equity limit.</p>
H	Better Care Fund	Reasonable Assurance	<p>The purpose of this audit was to provide assurance to management that procedures and controls in respect of the Better Care Fund (BCF) will ensure:</p> <ul style="list-style-type: none"> <li>All priority savings schemes achieve the targets set for reducing hospital admissions in each locality.</li> <li>Schemes which do not achieve savings targets are identified early so that remedial action plans can be implemented.</li> </ul>	June 2016	<p>We noted that the priority schemes did not achieve the savings targets for 2015/16. A review was being undertaken to help identify the causes and any areas of best practice. This review will lead to the development of a new policy document / plan for 2016/17, including savings targets.</p> <p>At the time of the audit (end of April 2016) the policy document had not been finalised but was expected to be presented to the Health and Wellbeing Board during summer 2016. Work was to be carried out with the assistance of an NHS Consultant to evaluate the success or failure of all the schemes. It was unclear whether the under-performance could have</p>	<p><b>One P2 agreed finding: Responsible Officer Assistant Director – Integration.</b></p> <p>A new plan for the BCF has been developed for 2016/17. Where best practice is identified, there will be a mechanism for disseminating such practice, so groups of professionals are not seen to be operating independently. This should assist in savings targets being achieved.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<ul style="list-style-type: none"><li>• Good practice is promptly identified and disseminated across all CCGs.</li></ul>		been highlighted earlier and what the causes were.	

### 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	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.