

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 SEPTEMBER 2017

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 2017 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), as well as receiving a copy of the latest directorate risk register.
- 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 2016 to 31 May 2017. 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 2017

- 3.1 The audit of schools has changed in recent years with a reduction in the number of individual establishment 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 relevant to schools in general. 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

7 August 2017

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 2017

| | System/Area | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|---|--------------------------------|---------------|--|-------------|---|---|
| A | School Improvement Partnership | Substantial | <p>Four school improvement partnerships have been created to bring together school leaders and council officers. The objective of the partnerships is to help improve standards across North Yorkshire through greater collaboration. The audit examined whether:</p> <ul style="list-style-type: none"> • The partnerships had set objectives, targets and milestones that are owned collectively. • The partnerships are monitoring and reporting activity, outcomes and impact. • The partnerships are held accountable for the allocation of funding and also the impact it has had on outcomes for children and young people | July 2016 | <p>At the first meeting of each partnership, members were required to sign confidentiality agreements and were made aware of the code of conduct. Each partnership has been correctly established under the constitution and has a suitable membership.</p> <p>There is no evidence of any declarations of interest within partnership minutes, although there is a possibility that conflicts may occur due to involvement with teaching alliances. No Service Level Agreements have been agreed between the partners so there maybe misunderstandings about the expectations of service delivery.</p> | <p>Two P2 and one P3 action were agreed.</p> <p>Responsible Officers Assistant Director – Education and Skills</p> <p>The importance of declaration of interests has been highlighted to all chairs. Memorandum of Understandings will be drawn up and used to define service delivery requirements</p> |

| System/Area | | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|-------------|------------------------------|---------------|---|--------------|---|--|
| | | | <ul style="list-style-type: none"> Any conflicts of interest have been recognised and mitigated | | | |
| B | Filey Junior School | No | <p>A full school audit was undertaken, covering the following areas:</p> <ul style="list-style-type: none"> Governance & financial management; Procurement; Payments; Income; Human resource management; Payroll School Fund administration; Data Protection and Information Technology; Risk management and insurance | January 2017 | <p>A number of major issues were identified in relation to the administration and financial management of the school.</p> <p>There was no effective method of collecting and banking income. Budget monitoring was not taking place, and therefore potential issues with income collection were not identified. The school fund was not managed effectively - it was unclear what it was used for and it had not been independently reviewed.</p> <p>Other issues were identified in respect of reconciliations, authorisation of orders, invoices and salary changes, and VAT returns not being submitted on a regular basis. VAT was also not accounted for correctly</p> | <p>Three P1, six P2 and six P3 actions were agreed.</p> <p>Responsible Officers</p> <p>Headteacher Governing Body FMS Officer</p> <p>The FMS officer for the school has provided significant support to bring documentation up to date and to establish new procedures for the school's financial administration.</p> <p>The School Fund has been closed and all transactions now take place within the BAFS account.</p> <p>Procedures have been clarified by the FMS officer. Staff and governors are now aware of their duties and responsibilities. The FMS officer is continuing to review progress to ensure key activities take place at the appropriate time and to the agreed standard.</p> |
| C | Developing Stronger Families | High | The DCLG framework for the Troubled | June 2016 | Suitable evidence was available to support the claim for each | No actions identified. |

| | System/Area | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|---|---|---------------|--|-------------|---|--|
| | | | 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 | | family within the sample. | |
| D | Themed School Audit - KS1 Free School Meals | Substantial | The audit reviewed the impact on individual schools following the introduction of Universal Free School Meals (UFSM) for KS1 pupils. The audit examined the impact on school catering facilities, the number of children entitled to pupil premium and the efforts of schools to maintain registration for Free School Meals (FSM) and hence Pupil Premium entitlement | April 2017 | <p>It is difficult to be certain if trends in FSM eligibility are down to local economic factors, or if the lack of incentive for parents to apply has had an impact, but there has been a clear decline in numbers at KS1.</p> <p>Some schools have introduced incentives for parents to apply, including offering supermarket vouchers, PE T-shirts or raffles. However, there does not appear to be any strong evidence that this approach has improved application rates.</p> | <p>Two P3 actions were agreed.</p> <p>Responsible Officers</p> <p>Head of Finance – Schools & Early Years / FMS Team Manager</p> <p>The financial management training offered by the FMS Team to schools will highlight the need to ensure that where incentives are offered to encourage parents to apply for FSM that there needs to be an appropriate review mechanism in order to ensure FSM entitlement rates are increasing. This was highlighted at the Spring 2017 Bursars Conference</p> <p>In conjunction with Veritau, we will investigate the possibility of using</p> |

| | System/Area | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|---|----------------------------|---------------|---|-------------|--|--|
| | | | | | | district council data or HMRC data to identify families who are eligible for FSM but have not claimed their entitlement. |
| E | Children's Direct Payments | Reasonable | <p>This audit was a follow up of the 2015/16 audit, and reviewed the implementation of the agreed actions.</p> <p>Following the previous audit it was proposed to transfer the monitoring of Children's Direct Payments to the Health and Adult Services Direct Payments Support Service (DPSS). The audit reviewed if this change had been successful in improving monitoring arrangements</p> | May 2017 | <p>It was found that since being transferred to the DPSS the monitoring arrangements have significantly improved. By having a DPSS Advisor with specialist knowledge involved from the outset and also undertaking the monitoring allows for issues to be identified promptly and action taken.</p> <p>However, the current monitoring arrangements in place for managed accounts are not sufficiently robust to be confident that the assessed needs of the child are being met.</p> <p>The DP pay schedule is managed by Business Support, but access to the spreadsheet is not sufficiently controlled, and the reconciliation process is not sufficient to verify the accuracy of information</p> <p>Some issues remain in relation to out of date guidance information, delays in updating Liquidlogic for some cases, and the need for</p> | <p>Two P2 and five P3 actions were agreed.</p> <p>Responsible Officers DPSS Manager Business Support Manager</p> <p>The process for managed accounts will be reviewed and training provided via team meetings.</p> <p>The pay schedule procedures will be reviewed to improve security measures.</p> <p>Documentation will be updated where required, an authorisation list produced and additional guidance produced and communicated to staff.</p> |

| System/Area | | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|-------------|------------------------------|---------------|---|---------------|---|--|
| | | | | | authorisation lists to identify who can initiate a new direct payment. | |
| F | Developing Stronger Families | 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 | December 2016 | Suitable evidence was available to support the claim for each family within the sample. | No actions identified. |
| G | Themed School Audit - Income | Substantial | <p>The audit reviewed procedures at a sample of schools to ensure that:</p> <ul style="list-style-type: none"> • all income received is recorded correctly and banked in a timely manner • there is a charging policy which is regularly reviewed and updated, includes debt recovery and is | May 2017 | <p>In general most schools had good procedures in place for the management of income and many now use an electronic income collection system for pupils to minimise the amount of cash income.</p> <p>A number of schools do not obtain lettings income in advance and in one case this had resulted in issues around outstanding payments. In some cases lettings policies have not been updated recently and therefore lettings</p> | <p>One P2 and four P3 actions were agreed.</p> <p>Responsible Officers Head of Finance – Schools</p> <p>Schools will be reminded of the need to review and sign off their lettings policies and the other issues identified within the audit. This will be done through bursars' conferences and training courses and we will ensure that this guidance is included in the finance manual. A note will also be</p> |

| System/Area | | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|-------------|---|---------------|--|-------------|--|---|
| | | | <p>applied consistently</p> <ul style="list-style-type: none"> insurance documents are retained for all lettings VAT on income is charged correctly | | <p>prices may be out of date. Some schools did not enforce the letting policy in relation to cancellations by regular users.</p> <p>One school uses a lettings company to manage all lettings, and although a SLA is in place this is a generic document provided by the lettings company.</p> <p>There are some issues around VAT exemption based upon affiliated sports clubs</p> | <p>sent to FMS officers with the finding of this and other themed audits and they will be asked to deliver this message when in school.</p> |
| H | Themed School Audit - Budget Management | High | The audit reviewed budgeting and budget management procedures within a sample of schools to ensure compliance with best practice and that suitable budget management could be evidenced. | May 2017 | <p>The majority of schools visited have good procedures in place for budget monitoring, and provide regular budget monitoring reports both to the Head Teacher and the Governing Body. Outturn, start and revised budgets are produced and submitted to CYPS Finance in line with required timescales</p> <p>Issues were identified with a small number of schools where budget reports are not submitted to governors in advance of meetings or with suitable regularity. There was also a lack of evidence of challenge or discussion within the minutes at some schools</p> | <p>One P2 and one P3 action were agreed.</p> <p>Responsible Officers Head of Finance – Schools</p> <p>Schools will be reminded of this recommendation, through bursars' conferences and training courses and we will ensure that this guidance is included in the finance manual. A note will also be sent to FMS officers and they will be asked to deliver this message when in school. Discussions will be held with Education & Skills and Governor Support to ensure they also deliver this message to governors</p> |

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. |