Oxfordshire County Council

Internal Audit Services

Annual Report of the Chief Internal Auditor

2014/15

Date Issued: June 2015

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1 INTRODUCTION

1.1 BACKGROUND

1.1.1 The Accounts and Audit Regulations 2011 require the Council to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The Public Sector Internal Audit Standards 2013 (the Code), which sets out proper practice for Internal Audit, requires the Chief Internal Auditor (CIA) to provide an annual report to those charged with governance, which should include an opinion on the overall adequacies of the internal control environment.

1.2 RESPONSIBILITIES

1.2.1 It is a management responsibility to develop and maintain the internal control framework and to ensure compliance. It is the responsibility of Internal Audit to form an independent opinion on the adequacy of the system of internal control.

1.2.2 The role of the Internal Audit Service is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the Authority's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:

- The Council can establish the extent to which they can rely on the whole system; and,

- Individual managers can establish how reliable the systems and controls for which they are responsible are.

1.3 INTERNAL CONTROL ENVIRONMENT

1.3.1 The Code defines the control environment as comprising of the Council's systems of governance, risk management and internal control, the key elements of which include:

- Establishing and monitoring the achievement of the organisation's objectives.
- The facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties.
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- The financial management of the organisation and the reporting of financial management.

- The performance management of the organisation and the reporting of performance management.

1.3.2   In order to form an opinion on the overall adequacy and effectiveness of the control environment the internal audit activity is planned to provide coverage of financial controls, through review of the key financial systems, and internal controls through a range of operational activity both within Directorates and cross cutting, including a review of risk management and governance arrangements. The Chief Internal Auditors annual statement on the System of Internal Control is considered by the Corporate Governance Assurance Group when preparing the Council's Annual Governance Statement.

1.4   THE AUDIT METHODOLOGY

1.4.1   The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards; however, there are currently three areas of non-conformance with those standards:-

- The Chief Internal Auditor has operational management responsibility for the Risk Management and Strategic Insurance functions, so is not wholly independent. The risk of conflict of interest is managed where audit activity is undertaken in areas where the CIA has operational responsibility as the Audit Manager reports directly to the Chief Finance Officer (S151 Officer);

- An Internal Audit Charter is to be drafted and presented to the Audit and Governance Committee; and,

- A Quality Assurance and Improvement Programme is being drafted and will be presented to the Audit and Governance Committee with the Internal Audit Charter

1.4.2   In accordance with the requirements of the Accounts and Audit Regulations 2011, the Monitoring Officer has carried out a review of the effectiveness of the System of Internal Audit. The scope of the review included a survey of Senior Management on the effectiveness of Internal Audit. In the report to the Audit and Governance Committee it was concluded the Internal Audit Service overall continues to be effective.

1.4.3   The Internal Audit Strategy and Quarterly Plans for 2014/15 were approved by the Audit and Governance Committee, who received quarterly progress reports from the CIA, including summaries of the audit findings and conclusions. The Audit Working Group also routinely received reports from the Chief Internal Auditor, highlighting emerging issues and for monitoring the implementation of management actions arising from internal audit reports.

1.4.4   The quarterly Internal Audit Plans identified the individual audit assignments. The activity was undertaken using a systematic risk-based approach. Terms of reference were prepared that outlined the objectives and scope for each audit. The work was planned and performed so as to obtain all the information and explanations considered necessary to

provide sufficient evidence in forming an overall opinion on the adequacy and effectiveness of the internal control framework.

1.4.5   Internal Audit reports provide an overall conclusion on the system of internal control using one of the following ratings:

GREEN   There is a strong system of internal control in place and risks are being effectively managed.

AMBER   There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.

RED   The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

In appendix 1 to this report there is a list of all completed audits for the year showing the overall conclusion at the time audit report was issued, and the current status (24 June 2015) of management actions against each audit, (based on information provided by the responsible officers).

1.4.6   To provide quality assurance over the audit output, audit assignments are allocated to staff according to their skills and experience. Each auditor has a designated Audit Manager to perform quality reviews at four stages of the audit assignment: the terms of reference, file review, draft report and final report stages.

1.5   THE AUDIT TEAM

1.5.1   During 2014/15 the Internal Audit Service was delivered by a mixture of an in house team, and audit professionals from Hampshire County Council. The specialist area of IT audit has also been outsourced. The in house team also provided services to external organisations, Thames Valley Police and Buckinghamshire County Council.

1.5.2   Throughout the year the Audit and Governance Committee and the Audit Working Group were kept informed of staffing issues and the impact on the delivery of the Plan.

1.5.3   It is a requirement to notify the Audit and Governance Committee of any conflicts of interest that may exist in discharging the internal audit activity:

● The Chief Internal Auditor and the Senior Auditor who leads on counter-fraud in the team are related. To manage that conflict, the CIA has no direct management of the Senior Auditor, and their line manager reports directly to the CIA's line manager on all personnel and performance matters.

● In addition to the above, a close relative of those staff also works for Oxfordshire County Council as a Manager within Social and Community Services. The CIA and the Senior Auditor, are not involved in any audit activity where they could be conflicted.

- The Chief Auditor has operational management responsibility for the Risk Management and Insurance functions, so is not wholly independent. The risk of conflict of interest is managed where audit activity is undertaken in areas where the CIA has operational responsibility as the Audit Manager reports directly to the Chief Finance Officer (S151 Officer)

2 OPINION ON SYSTEM OF INTERNAL CONTROL

2.1 BASIS OF THE AUDIT OPINION

2.1.1 The 2014/15 Internal Audit Plan has been completed with the exception of Adult Social Care Management Controls.

2.1.2 The plan was revised during the year, and eleven audits originally planned have been cancelled or deferred (these were report to the April 2015 Audit Committee):

- CEF   SEND (Special Education Needs and Disability) Programme
- CEF   Thriving Families Grant
- CEF   Multi Agency Safeguarding Hub
- SCS   Contract Procurement and Contract Management
- SCS   Personal Budgets and Direct Payments
- EE   Capital Programme Governance and Delivery
- EE   Highways Contract
- EE   Waste Disposal Contracts
- EE   Planning
- EE OCS   Externalisation of ICT Services
- PH   Grants / Contract Procurement and Contract Management

2.1.3 The completed internal audit activity and the monitoring of audit actions through the action tracker system enable the Chief Internal Auditor (CIA) to provide an objective assessment of whether systems and controls are working properly. In addition to the completed internal audit work, the CIA also uses evidence from other audit activity, including counter-fraud activity, and attendance on working groups e.g. Corporate Governance Assurance Group and Commercial Services Board. In giving an audit opinion, it should be noted that assurance can never be absolute; however, the scope of the audit activity undertaken by the Internal Audit Service is sufficient for reasonable assurance to be placed on their work.

2.1.4 A summary of the work undertaken during the year, forming the basis of the audit opinion on the control environment, is shown in appendix 1

2.1.5 The overall opinion for each audit, highlighted in appendix 1, is the opinion at the time the report was issued. The internal audit reports contain management action plans where areas for improvement have been identified, which the Internal Audit Team monitors the implementation of by obtaining positive assurance on the status of the actions from the officers responsible. The current status of those actions is also highlighted in appendix 1, for each audit. Reports on outstanding actions have been routinely presented to Directorate Leadership Teams, and the Audit Working Group. The Chief Internal Auditors opinion set out in section 2.2.1 takes into account the implementation of management actions.

2.1.6 The Anti-fraud and corruption strategy remains current and relevant. During 2014/15 there has been an increase in the amount of reported fraud, or attempted fraud, including external fraud

2.1.7 The National Fraud Initiative data matching reports have been reviewed and key matches are being investigated.

2.1.8 It should be noted that it is not internal audit's responsibility to operate the system of internal control; that is the responsibility of management. Furthermore, it is management's responsibility to determine whether to accept and implement recommendations made by internal audit or, alternatively, to recognise and accept risks resulting from not taking action. If the latter option is taken by management, the Chief Internal Auditor would bring this to the attention of the Audit Committee.

2.1.9 The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

2.1.10 In arriving at our opinion we have taken into account:

- The results of all audits undertaken as part of the 2014/15 audit plan;
- The results of follow up action taken in respect of previous audits;
- Whether or not any priority 1 actions have not been accepted by management - of which there have been none;
- The affects of any material changes in the Council's objectives or activities; and,
- Whether or not any limitations have been placed on the scope of Internal Audit – of which there have been none.

2.2 CHIEF INTERNAL AUDITORS OPINION ON THE SYSTEM OF INTERNAL CONTROL

2.2.1 In my opinion Oxfordshire County Council's overall system of internal control continues to facilitate the effective exercise of the Council's functions and provides a **reasonable** assurance regarding the effective, efficient and economic exercise of the Council's function.

2.2.2 As also stated last year, there have been some areas of weakness identified by management and Internal Audit, but these have all resulted in positive action plans to address them, with appropriate timescales, demonstrating a commitment to maintaining effective governance and internal control. Whilst this is a positive assurance the organisation continues to operate under significant financial pressure, and in a state of continuous change. Governance is strong which provides a good foundation for managing these pressures effectively, but there is an inherent risk to the control framework when capacity within an organisation becomes stretched.

2.2.3 Whilst this opinion is of the whole system of internal control, the level of assurance that can be provided on commissioning and contract management is limited. The Council has introduced a Commercial Board, with a terms of reference to provide oversight and challenge over the performance and governance of the council wide commissioning and contract management activity; however the operations of the Board are not yet sufficient to provide that management assurance; in addition the amendments to the Internal Audit Plan in year has reduced the work undertaken in this area, therefore the level of assurance from the CIA is restricted and cannot be considered as a representation across the Council.

2.2.4 There have been 30 audits completed in 2014/15, of which only three resulted in an opinion of with a RAG status of Red (Children's Social Care Management Controls - Transport, ASC IT System and Residential and Home Support Payment Systems).

2.2.5 The audit of Adult Social Care Management Controls and the Governance Reports to Directorates is to be completed.

2.2.6 The outcomes of the audits, including a summary of the key findings are reported quarterly to the Audit and Governance Committee. The summaries of the audits completed since the last report (22 April 2015) are attached as appendix 2;

- Main Accounting
- Payroll
- Pensions Administration
- Schools Support
- Treasury Management
- CEF Contract Management
- CEF Childrens Social Care Management Controls - Transport

- Accounts Receivable
- Procure to Pay / Accounts Payable
- Pension Fund

2.3 INTERNAL AUDIT PERFORMANCE

2.3.1 The following table shows the performance targets agreed by the Audit Committee and the actual 2014/15 performance.

Measure	Target	Actual Performance 2013/14
Elapsed time between start of the audit (opening meeting) and the Exit Meeting	Target date agreed for each assignment by the Audit Manager, no more than three times the total audit assignment days	52% of the audits met this target. (2013/14 this was 70%, in 2012/13 this was 55%)
Elapsed time for completion of the audit work (exit meeting) to issue of draft report	15 Days	83% of the audits met this target. (2013/14 this was 82%)
Elapsed time between issue of draft report and the issue of the final report	15 Days	69% of the audits met this target. (2013/14 this was 65%)
% of Internal Audit planned activity delivered	100% of the audit plan by end of April 2014.	64% of the plan was completed by the end of April 2015. (2013/14 this was 86%).
% of agreed management actions implemented within the agreed timescales	90% of agreed management actions implemented	214 Management Actions agreed in 2014/15: 49% implemented, 39% not yet due, 12% due or partially implemented. 382 Management Actions agreed in 2013/14: 92% implemented, 8% not yet due, overdue or partially implemented.
Customer satisfaction questionnaire (Audit Assignments)	Average score < 2	Based on 8 questionnaires returned the average score was 1.02 (13/14 was 1.24, 12/13 and 11/12 were both 1.32).

Measure	Target	Actual Performance 2013/14
Directors satisfaction with internal audit work	Satisfactory or above	Achieved – Review of System of Internal Audit

Ian Dyson

Chief Internal Auditor

June 2015

APPENDIX 1 Audit & Governance Committee July 2014 - Implementation status of 2014/15 management actions.

Note implementation status is reported by management. Internal Audit has not yet undertaken any further testing to confirm.

Directorate	Audit	Overall Conclusion at Final Report Stage	Number of Management Actions agreed	Reported implementation status as at 22 June 2015
CEF	Early Years Payments	Amber	4	3 implemented, 1 not due
CEF	Schools Assurance - Schools Support	Green	0	n/a
CEF	Church Cowley School	Amber	8	8 implemented
CEF	Frameworki (Children Social Care system)	Green	2	2 implemented
CEF	Placement Strategy	Amber	3	1 implemented, 2 not due
CEF	Contract Procurement and Contract Management	Amber	12	12 not due
CEF	Children's Social Care Management Controls (Transport)	Red	42	6 implemented, 35 not due, however in progress and 1 partially implemented.
SCS	Client Charging	Amber	10	5 implemented, 5 not due
SCS	Residential and External Home Support Payments Systems	Red	35	26 implemented, 2 not due and 7 partially implemented

Directorate	Audit	Overall Conclusion at Final Report Stage	Number of Management Actions agreed	Reported implementation status as at 22 June 2015
SCS	Pooled Budgets	Amber	7	1 implemented, 1 not due and 5 not implemented
SCS	Adult Social Care Information System	Red	12	5 implemented, 4 not due and 3 partially implemented
SCS	Adult Social Care Management Controls	Amber (provisional)	Draft report to be issued	
EE	Property and Facilities Management Contract	Amber	12	1 implemented, 11 not due
EE	Oxfordshire Innovation Support Programme	Amber	6	4 implemented, 2 not implemented
EE	Integrated Transport Unit	N/A	Management letter to be issued identifying any residual issues not reported within the Children's Social Care Management Controls Transport Audit.	
EE	Energy Recovery Facility (Energy From Waste)	Green	6	5 implemented, 1 not due
EE	ITU Overtime Claims	N/A	5	3 implemented, 2 not due
EE OCS	Windows Active Directory	Amber	13	6 implemented, 1 not due, 3 partially implemented and 3 not implemented
EE OCS	Managed Connectivity Services Part 1	Amber	7	7 implemented

Directorate	Audit	Overall Conclusion at Final Report Stage	Number of Management Actions agreed	Reported implementation status as at 22 June 2015
EE OCS	Managed Connectivity Services Part 2	Green	5	4 implemented, 1 partially implemented
EE OCS	PSN Code of Connection	Amber	13	9 implemented, 4 not due
EE OCS	IT Disaster Recovery	Amber	6	3 implemented, 3 not due
EE OCS	Pensions Administration	Green	0	n/a
EE OCS	ICT Strategy	Amber	5	3 implemented, 2 not implemented
Key Financial System	Payroll	Green	0	n/a
Key Financial System	Procure to pay including accounts payable	Amber	4	4 not yet due
Key Financial System	Accounts Receivable including cash receipting	Green	0	n/a
Key Financial System	General Ledger & Main Accounting	Green	0	n/a
Key Financial	Treasury Management	Green	0	n/a

Directorate	Audit	Overall Conclusion at Final Report Stage	Number of Management Actions agreed	Reported implementation status as at 22 June 2015
System				
Key Financial System	Pension Fund Management	Green	0	n/a

- In addition to the Internal Audit reviews, the internal audit team has undertaken a series of governance interviews with tier 3 managers, identifying the level of assurance and methodology those managers have over their teams' compliance with the key governance systems. The outcome of this work has confirmed the level of management control is good. There are some areas where actions are required, but these are not material to the overall level of assurance.

- There are two on going pieces of risk management work that were to form part of the annual assurance opinion, however these have not yet been concluded:

  - Public Health

  - Business Continuity in the supply chain.

  The outcome of this work should be available for reporting to the Committee in September.

Summary of Completed 2014/15 Audits for Audit & Governance Committee on 08 July 2015 since last reported to the Audit & Governance Committee on 22 April 2015.

Main Accounting 2014/15

Opinion: Green	08 May 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

Internal Audit identified that there is a strong system of internal control in place and risks are being effectively managed. Areas of good practice noted were:

- Journals and Internal recharges are effectively processed. The sample of 30 reviewed had appropriate authorisation, commentary and adequate supporting documentation.

- Clear procedures and template forms are available to staff on the Intranet for requesting journals, internal recharges and new or amended cost centre and GL codes.

- The Dynamics system effectively maintains an audit trail of emails and other documentation for processes managed by the Finance Service Desk, including journals, internal recharges and AP uploads. Each is allocated a unique number which can be cross referenced to SAP.

- There is a register of feeder systems with approved authorising officers.

- Generally procedures are clear, up to date and are being followed for uploading data from feeder systems into SAP. From the sample of five feeders reviewed, these were adequately controlled and authorised. Reconciliation between SAP and the feeder data is made by checking the control totals in the requestor's email to a screen shot taken of SAP following the upload.

- Sample checking of feeder systems, journals and internal recharges are undertaken by an independent team and issues were appropriately followed up and resolved.

- Control and suspense accounts are appropriately reconciled and checked by the Banking and Control team.

- From the sample of bank reconciliations tested, these were adequately completed, authorised and issues resolved.

- Changes to profit and cost centres and GL codes were requested on the appropriate form, reviewed, authorised and notification of completion issued.

Follow up: All actions from the 2013/14 Main Accounting audit are reported as fully implemented.

Payroll 2014/15

Opinion: Green	08 May 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

Internal Audit identified that there is a strong system of internal control in place and risks are being effectively managed. Areas of good practice noted were:

- Starters and leavers were supported by appropriate documentation. A review of 30 starters and 30 leavers found that the details input in SAP agreed with what had been recorded on the supporting paperwork.

- A review of a sample of changes to standing data found that all had been authorised by either the employee or their line manager.

- Variations, adjustments, deductions and additions to pay had been authorised and were supported by documentation where appropriate. Overpayments are recorded on a spreadsheet held by the PEI team and are discussed at six monthly meetings.

- A sample of two months of the payroll processing were tested and it was found that the details were reconciled to SAP and the details were checked by two people prior to the payroll being released. A further two months were reviewed to confirm that payments made to HMRC were made on time.

- A number of checks are carried out each month by the PEI team to ensure that the changes have been input accurately and are supported by appropriate documentation. They also carry out the ad-hoc checks to pick up any errors prior to the payroll being released. Evidence was supplied by the Workforce Information team of the quarterly reports they issue to the directorates to ensure that post information is accurate.

Follow up: All actions from the 2013/14 Payroll audit are reported as fully implemented.

Pensions Administration 2014/15

Opinion: Green	12 May 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

Internal Audit identified that there is a strong system of internal control in place and risks are being effectively managed. Areas of good practice noted were:

- detailed procedure notes in place for all key processes.

- sample tests confirmed that procedures had been followed for new members, deaths, retirements & changes to personal details.

- management checks are carried out on specified processes and are evidenced.

- changes in pension regulations are communicated to stakeholders.

- training for staff is a continual process.

- performance is benchmarked using the CIPFA benchmarking group.

- monthly checks are carried out to confirm that pension payments are within set tolerances and unusually high payments are double checked.

- monthly checks are carried out to confirm that scheme employers provide the requisite information on their members.

- there is a defined process for admitting new employers to the scheme and this is administered by the Pensions Services Manager.

- monthly performance monitoring is carried out, ensuring that potential backlogs in workloads are identified promptly and remedial action instituted.

However, the following supplementary issues were noted during the audit:

- A high degree of reliance is placed on the Pension Services Manager for admitting new employers to the pension scheme. There is an operational risk should this expertise be lost or extensive backlogs develop.

Follow up: The action from the 2013/14 Pension Administration audit is reported as fully implemented.

Schools Support 2014/15

Opinion: Green	12 May 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

Internal Audit identified that there is a strong system of internal control in place and risks are being effectively managed. Areas of good practice noted were:

- Allocations from the Department for Education are reconciled to the individual allocations made to the schools.

- The Schools Forum is provided with regular updates regarding the funding formula and are active in considering the implications of funding decisions.

- Additional funds made available by central government are distributed in line with pre-agreed formulae.

- Schools are provided with easy to access guides via the intranet and are encouraged to communicate with the support section.

- Schools are monitored for the timely preparation of their budgets and chasing action is instituted where schools fail to submit their budgets on time.

- Deficits are approved at an appropriate level (although one of the random samples included a school where the budget, and deficit have not been approved for 2014/15. Evidence was observed to indicate that support continues to be provided to assist the school in meeting its obligations).

- Performance against budget is monitored during the year.

Follow up: There were no actions from the 2013/14 Schools Support audit to follow up.

Treasury Management 2014/15

Opinion: Green	21 May 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

Internal Audit identified that there is a strong system of internal control in place and risks are being effectively managed. Areas of good practice noted were:

- The Treasury Management strategy and policy documents have been created in adherence to the CIPFA Treasury Management Practices and have been reported appropriately to Cabinet, Full Council and the Audit and Governance Committee

- Operational procedures have been made available to all relevant officers through checklists included on the Lending Database

- Treasury Management activity is reported to Cabinet and Full Council with sufficient frequency and detail to allow informed strategic decisions to be made

- There is sufficient separation of duties at the operational level to verify the compliance of investment transactions to the agreed strategy and policy and controls are in place and are working effectively to ensure the security of Council funds as far as possible

- Midterm and end of year reports to Cabinet and Full Council have included the fact that no new borrowings have been planned or made during the year

- Investments are reconciled to the bank statement on a daily basis to ensure the security of Council funds and inform cash flow forecasts.

Follow up: The actions from the 2013/14 Treasury Management audit is reported as fully implemented.

CEF Contract Management 2014/15

Opinion: Amber	09 June 2015	
Total: 12	Priority 1 = 03	Priority 2 = 09
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	12	

Overall Conclusion is Amber

An audit of CEF Contract Procurement and Contract Management was undertaken in 2012/13 (final report issued 22 April 2013). The overall conclusion was Red due to the significant control weaknesses identified in the management of this activity. There were six priority 1 management actions agreed and eleven, which were priority 2. This audit has followed up on the implementation of those management actions.

There has been a noticeable improvement in control within CEF contract management activity since the previous audit. Joint Commissioning have allocated a Quality & Contracts Manager to work full-time specifically to CEF in July 2014; this post has played a significant role in this improvement and particularly her work with the CEF operational managers to support them with the contract management activity that they still manage. Improvements have also been achieved within Joint Commissioning with the maintenance of the CEF contracts register, risk assessment of contracts to determine CEF contract management activity, checks on financial status of contractors, and improvements to

policies and processes, including the new quality monitoring toolkit, documented action plans and formalised escalation procedures.

There is still however further improvement required and on that basis the overall grading following this follow up audit is amber.

Of the 17 management actions agreed;

- 8 are fully implemented.
- There are 2 management actions which were recorded by management as superseded, however one of these has been re-stated within this report.

- There is 1 management action still not reported as implemented by management on the system, however management report the process is now drafted and is ready for implementation.
- There are 6 management actions (2012/13 report reference 2, 5, 6a, 6b, 7a and 7b which were reported as implemented however further testing of these has identified they have only been partially implemented and therefore they are re-stated again in the report.

The decision made by CEF DLT in September 2013 to transfer responsibility for all contract management and monitoring activity, other than for spot provision, from the service area to Joint Commissioning has not been fully implemented. The improvements noted within Joint Commissioning, in respect of their revised polices and processes for contract monitoring have not been fully implemented by CEF operational managers who have retained responsibility. Consequently there are still inconsistencies in approach, documentation, action tracking and failure to holistically consider all information gathered.

There is no regular information provided to Senior Management within CEF to enable them to properly consider contract activity. A contract overview report has been provided to DLT since April 2014. One was due in October 2014 and was ready for presentation to DLT however the meeting was cancelled.

CEF Childrens Social Care Management Controls - Transport 2014/15

Opinion: Red	29 April 2015	
Total: 42	Priority 1 = 03	Priority 2 = 09
Current Status:		
Implemented	6	
Due not yet actioned	0	
Partially complete	1	
Not yet Due	35 - all in progress	

Overall Conclusion is Red

The audit reviewed the management controls in place for the transportation of children, focussing on the governance arrangements, including policy and standards, performance

monitoring, management reporting and communication, between CEF as the commissioning Directorate, and EE as the Directorate responsible for managing the service provision. At the time of the audit, management had identified some operational weaknesses and had initiated actions to address these; however, the audit highlighted to Senior Management further weaknesses in the governance arrangements and system of control such that overall the assurance that risks are being managed effectively is limited.

The response to the report was immediate, with an action plan agreed by CCMT, and a task group and project team assigned to ensure the actions are to be effective and delivered on time.

Accounts Receivable 2014/15

Opinion: Green	10 June 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

Internal Audit identified that there is a strong system of control in place and that, through compliance with the financial regulations, risks are generally well managed. The findings of this review can be summarised as follows:

- Invoices are being raised accurately in accordance with set charges or costs agreed with the customer to recover costs of service. Outstanding debts are monitored frequently and non payment is followed up with the customer in an effort to recover all monies owed.

- Credit notes and bad debt write offs are only applied where a customer organisation has ceased to exist, or where it has been agreed that it would be uneconomical to pursue further having attempted to chase payment.

- The receipt of cash and cheque income is recorded and retained in Directorates as evidence that all income received is paid into the bank.

- Income processed through SAP is reviewed by the Banking and Control team who perform weekly reconciliations to ensure income is coded accurately in the general ledger.

One finding was identified that out of a sample of 29 new customer records, six were duplicates of records that had previously been set up. Checks to confirm whether a customer record already exists in SAP do take place, but these cases had not been identified.

Procure to Pay / Accounts Payable 2014/15

Opinion: Amber	23 June 2015	
Total: 04	Priority 1 = 0	Priority 2 = 04
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	04	

Overall Conclusion is Amber

Background:

At the time of the review, the County Council was undertaking a project to transfer the Procure to Pay and Accounts Payable process to Hampshire County Council's Integrated Business Centre (IBC). Many of the outstanding actions emanating from the previous review should be addressed by the implementation of the IBC Project, e.g. drafting outstanding policies and procedures and late payment of invoices reporting. Although this review focussed on current processes, we also discussed future considerations, such as data ownership (including vendor accounts) and management information requirements (to ensure compliance with internal guidance and legislation).

Governance and Management Information:

We were advised that due to the IBC project, the Commercial Services Board and Vendor Data Group have been suspended during the implementation phase. Both groups were previously tasked with managing and overseeing the performance of the system. As part of our review, we found that some existing policies available on the intranet to guide staff may be out of date as they had not been reviewed as planned. However, we acknowledge that many of these policies and procedures will need to be updated to reflect future working practices.

We found that management information was being generated in order to identify compliance issues and ensure the accuracy of payments to vendors. However, some of these current reports are bespoke and the Council will need to be clear as to reports required following transfer to the IBC, e.g. retrospective purchase orders and the use of red routes and where and by whom such reports will be generated.

Vendor Creation and Maintenance, including Change of Bank Details:

We found that in all instances tested the vendor maintenance form was used, as required, to request the creation of a new vendor - both commercial and non-commercial. Requests are emailed (with the vendor forms attached) to the Central Buying Team's (CBT) shared inbox, and we found that requests were processed by CBT promptly (generally within one day). However, as with the previous review, we found instances when email requests were not copied to the appropriate line manager and this has been interpreted as insufficient management approval. Specifically regarding non-commercial vendor creations, we found 25 out of the 30 samples tested had been approved by an officer who did not appear on the current list of acceptable authorisers. However, we were

subsequently provided with an amended list as it transpired the original list was out-of-date. Keeping this list up-to-date may need to occur on a more regular basis.

We found that there was adequate supporting evidence for bank account changes, and we were advised that CBT seek verification for bank account changes by contacting the vendor. However, other changes such as address and email changes are not verified. Regular reports to summarise all changes, including bank account changes, are not generated. We did not test OTVs created by the departments, but we reviewed the list of OTVs reported in January 2015. We identified four OTVs with potential multiple use, however, have obtained assurance that inappropriate (excessive) use had not occurred.

Scheme of Delegation Application and Segregation of Duties:

The Procure to Pay processes are split between the Central Buying Team (CBT) and the Accounts Payable (AP) Team with the CBT responsible for maintaining vendor master data and orders and the AP team responsible for processing the invoice payments. Different SAP user roles have been created for CBT staff and Accounts Payable staff. Thus, there is an in-built separation of duties in place within the system. We obtained a list of users to confirm who were currently able to access and amend master data in SAP and one individual was identified who should no longer have access. The individual's access was removed during the audit.

Purchasing and Payments Process:

The Council uses validation software called Basware to check scanned in invoices. Any document that fails the validation check is blocked and is not automatically transferred to SAP for payment. The number of first time validations are reported as part of the KPI dashboard, in order to provide an indicator of the compliance levels. From our sample of 30 payments tested, we found that all invoices examined were paid within the standard 28 days, once posted in SAP.

We identified some issues with compliance that have affected performance and will continue to do so on transition to the IBC. For example, we found retrospective purchase orders had been raised in three instances (represented 10% of the sample and validated the management information being reported by CBT, which was also at 10%). We found that lengthy delays sometimes occurred in respect of Directorates submitting invoices for settlement to Accounts Payable, e.g. we found two instances when there was a gap of at least 162 days between invoice date and SAP processing date (only the AP team scan in invoices). Furthermore, we found six instances when handwritten purchase order numbers appeared on invoices – this too presents a risk of delayed payments as they are returned to the Directorate for corrective action.

Pension Fund 2014/15

Opinion: Green	23 June 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

Internal Audit identified that there is a strong system of internal control in place and risks are being effectively managed. Areas of good practice noted were:

- Fund objectives are clearly defined through the Funding Strategy Statement, Statement of Investment Principles, Pension Fund Scheme of Delegation, Governance Policy Statement and Communication Policy Statement and these policies are subject to review and formal approval

- The Pension Fund Committee are regularly informed of performance through reports by the Fund Managers; fund valuations and by the Independent Financial Advisor

- WM Performance Services provide an annual report on the fund managers' performance to the Pension Fund Committee

- Officers keep up to date with financial news to identify any emerging issues and an on-going training programme is in place for Committee Members

- The Annual Report 2013/14 was reviewed by the Pension Fund Committee prior to acceptance of the Accounts and the Committee has oversight of company engagement for all fund managers

- Quarterly rebalancing meetings take place and a record of decisions is maintained

- Cash flow forecasting and monitoring arrangements are in place and are reviewed by service management and the independent financial advisor during quarterly meetings.

- The latest three yearly 'Fundamental Review of the Pension Funds Investment Management' was presented to the Pension Fund Committee in March 2014 and employer contribution rates and deficit values have been accurately captured and administered

- Fund managers' performance against targets based on overall market performance is monitored by quarterly benchmarking reports

- Pension contribution returns are subject to a robust monitoring process and are reconciled with SAP. Charges are raised, where appropriate, for incorrect account codes

- There is a reconciliation process for third party invoices and charging for inaccurate payments from admitted bodies.

- The Pensions Fund Team checks the custodian's monthly report, comparing their fund valuations with the valuations reported by the Fund Managers

- Invoices from fund managers, the custodian and the IFA for their fees are checked, approved and paid in a timely manner

- The daily bank reconciliations are further enhanced by a weekly bank reconciliation process to SAP.

The following supplementary issue was noted during the audit:

- The latest available ISAE 3402 (external report) for the custodian covered the period to September 2013 and was published in December 2013. However, this report was not made available for review during the audit.

Follow up: There were no actions from the 2013/14 Pension Fund audit to follow up.