Division(s): NA

# AUDIT and GOVERNANCE COMMITTEE – 17 SEPTEMBER 2014

# INTERNAL AUDIT 2014/15
# PROGRESS REPORT

**Report by the Chief Financial Officer**

## INTRODUCTION

1. The agreed Internal Audit Plan for Q1 & Q2 2014/15 is attached as annex 1 to this report, and includes a progress status for those audits. This report also includes a summary of the completed audits, and the current status of the management action arising from those audits.

2. This report would usually include the audit plan for the remainder of 14/15; however, resources within the Audit Team have now become an issue. Recruitment has not been successful. Difficulty in recruiting experienced Audit Staff is an industry wide issue. We are considering going back to market shortly, but on a different strategy; offering a lower grade of post, hoping to attract new entrants with a training programme. This will have the advantage of providing existing staff with the opportunity to develop supervisory and coaching skills, but will also have a negative impact on the Audit Plan.

3. We have previously utilised the call off contract with Mazars to provide resilience. Across our clients we are already utilising the maximum capacity of Mazars staff they are able to offer.

4. The shortfall on audit days is currently equivalent to two FTE (400 days). We will be undertaking a full review of the Audit Plan, and will be looking at options for obtaining assurance within a reduced number of audit days. This will be a key focus in September. A revised plan will be presented to the AWG in October for consideration.

## 2014/15 AUDIT PLAN PROGRESS

5. There have been four 2014/15 audits concluded since the last update (provided to the July meeting of the Audit and Governance Committee); summaries of findings and current status of management actions are detailed in Annex 2. These have also been reported to the Audit Working Group. The completed audits are as follows:

| Directorate | 2014/15 Audits | Opinion |
|---|---|---|
| OCS | Windows Active Directory Review 2014/15 | Amber |
| OCS | Managed Connectivity Services (Part 1) 2014/15 | Amber |
| CEF | Early Years Payment Process 2014/15 | Amber |
| SCS | Client Charging 2014/15 | Amber |

**PERFORMANCE**

6. The following performance indicators are monitored on a monthly basis.

| Performance Measure | Target | % Performance Achieved | Comments |
|---|---|---|---|
| Elapsed Time for completion of audit work (exit meeting) to issue of draft report. | 15 days | 100% | None. |
| Elapsed Time between issue of Draft report and issue of Final Report. | 15 days | 50% | The two audits that did not achieve the target averaged at 8 days over. |

The other four performance indicators are:

- % of 2013/14 planned audit activity completed by 30 April 2014 - reported at year end.
- % of management actions implemented - 89%. There are 6% (73 actions) that are overdue
- Effectiveness of Internal Audit - reported at year end.
- Extended Management Team satisfaction with internal audit work - reported at year end.

**COUNTER-FRAUD**

7. There are six schools currently under review / investigation, the status of these are as follows;

- The investigation into the whistleblowing allegation regarding inappropriate procurement practices found that there was a failure to follow established policy and procedure. The audit also identified a number of areas where there were either weak controls or gaps in control, this has been highlighted to the school so they can rectify them going forward. There was insufficient evidence to suggest any actual fraud having taken place by the individual, however this is now with the directorate to ascertain whether they want to take this any further and interview former members of staff.
- The whistleblowing allegation received by the Oxford Diocese relating to financial mismanagement has been closed as the school have reviewed the control arrangements in place and are addressing the performance issues identified.
- A Headteacher referred suspected systematic theft of cash at a school, to the Police. An employee resigned their post as a result. A further update will be sought in September at the beginning of the school term.

- One anonymous whistleblowing allegation was received relating to a grant fund being used to pay a senior member of school staff's family member. Audit conducted some background checks with information available, however that did not show anything untoward. This allegation has now been passed to the Chair of Governors to look into, via the CEF Deputy Director.
- A school reported that they had been the victim of an external attempt of fraud, having received an unexpectedly large telephone bill. The school are in contact with the suppliers to ascertain what has happened and have not yet paid the bill. This is currently being reviewed with ICT to see whether there is any advice or additional actions required to try and prevent this type of external threat in the future. A communication will be issued to the schools at the beginning of the school term.
- Another school reported a small cash theft. It was reported to the Police who decided not to take it further. Audit discussed the control arrangements with the Bursar and noted some areas where improvement could be made to prevent this happening again. The school agreed to adopt new procedures to address the gaps.

8. An allegation was received relating to procurement card misuse. It was noted that a team were using cards assigned to people that had either left the Council, or were on sick leave. These cards have since been cancelled by the Banking Team. Audit reviewed the transactions and they appeared to be appropriate for the nature of the work concerned. This was also discussed with the manager who is now clear on the correct process.

9. An investigation into overtime claims within a service area did not identify any fraud; however a number of management issues were identified including poor control. Actions have been taken to correct this.

10. There has been a result in Court regarding the fraud within the County Print Finishers Unit. The dismissed employee has attended Crown Court and received a prison sentence of one year, suspended for two years, and is required to undertake community service. No funds were awarded to the Council through the compensation order; instead the Court decided to seek recovery through the Proceeds Of Crime Act (POCA). The POCA hearings are set for October and the POCA Team will be in touch with OCC to advise on the exact date nearer the time.

11. Following an establishment audit an agreed management action to further investigate the use of high street vouchers identified that the Manager had purchased in excess of £28k of vouchers.

    Initial review of these transactions by Finance and Internal Audit concluded that there has been inadequate management control over the storage, documentation, issue and accounting for the vouchers, which has meant the possibility of theft, error or misuse of the vouchers could not be ruled out. A clear trail of vouchers purchased and how these have been spent has not been maintained. Receipts were not available to account for all vouchers recorded as spent. It is estimated that over £3,200 of spend against vouchers cannot be properly accounted for. It was not possible to confirm that the expenditure against the vouchers was for appropriate business use. It was also noted that some unspent vouchers have now gone out of date.

A management investigation has been concluded and a disciplinary action taken. There has been a full review of the use of vouchers within the service, with clear procedures and controls introduced. The use of vouchers is now restricted to minimal amounts and for approved exceptional use.

12. An external whistle-blower made allegations of "fraud" in respect of false recording of records relating to a children social care client. The matter was investigated by Internal Audit. It was concluded there was no evidence of fraud; however there were errors in the records reviewed, including dates of contact or events. The document management process was not been reviewed as part of the investigation, but based on the accuracy issues identified a recommendation has been agreed that a quality audit is undertaken as part of the annual cycle of safeguarding quality assurance reviews.

## RECOMMENDATION

**The committee is RECOMMENDED to note the report.**

LORNA BAXTER
Chief Finance Officer

Contact Officer: Ian Dyson, Chief Internal Auditor,
Contact Number: (01865) 323875
Background papers: None.

**ANNEX 1**

**2014/15 - Internal Audit Plan Q1 & Q2**

2014/15 - Completed Audits

| Directorate | Audit | Conclusion |
|---|---|---|
| OCS | Windows Active Directory Review 2014/15 | Amber |
| OCS | Managed Connectivity Services (Part 1) 2014/15 | Amber |
| CEF | Early Years Payment Process 2014/15 | Amber |
| SCS | Client Charging 2014/15 | Amber |

2014/15 - Audits in progress

| Directorate | Audit |
|---|---|
| E&E | Property & Facilities Contract |
| E&E | ITU Assurance Framework |
| E&E | Energy From Waste |
| E&E | Innovation Support for Business |
| E&E (OCS) | Externalisation Programme |
| E&E (OCS) | PSN Code of Connection |
| CEF | Placement Strategy |
| SCS | LEAN / Responsible Localities |
| SCS | Personal Budgets / Direct Payments |
| SCS | Pooled Budgets |
| SCS | Residential and External Home Support Payments |
| OFRS | Joint Fire Control Programme |
| Cross Cutting | Grant Certification Work |

**ANNEX 2**

# Summary of Completed Audits - 2014/15

**Windows Active Directory Review 2014/15**

| | | |
|---|---|---|
| Opinion: Issues | 19 June 2014 | |
| Total: 13 | Priority 1 = 0 | Priority 2 = 13 |
| Current Status: | | |
| Implemented | 2 | |
| Due not yet actioned | 9 | |
| Partially complete | 0 | |
| Not yet Due | 2 | |

Windows Active Directory (AD) is a core component of the network and performs a key role in ensuring network services and resources are appropriately managed and secured. An important function of Windows AD is to authenticate network users and control/restrict their level of access.

We have found some areas of good risk management and control, including the domain security and auditing policies, which are set in accordance with PSN (Public Services Network) Code of Connection requirements. Furthermore, in terms of auditing, domain controller event logs are copied to an external system for longer term retention. Domain administrator accounts were reviewed and found to be limited to ICT users who require such level of access.

However, we have identified a number of areas were controls need to be further strengthened to protect the network from unauthorised access and/or cyber threats. This includes:

- Having a formalised system for receiving and distributing security bulletins;
- Ensuring all operating software is patched up to date;
- Reviewing user accounts where the password is set to never expire;
- Disabling the default administrator account as it is not required;
- Introducing a policy for managing dormant accounts and service/resource accounts;
- Implementing more comprehensive alerting on the Tripwire Log Centre system; and
- Documenting the purpose of all Group Policy Objects.

**Managed Connectivity Services (Part 1) 2014/15**

| | | |
|---|---|---|
| Opinion: Issues | 24 June 2014 | |
| Total: 07 | Priority 1 = 0 | Priority 2 = 07 |
| Current Status: | | |
| Implemented | 0 | |
| Due not yet actioned | 7 | |
| Partially complete | 0 | |
| Not yet Due | 0 | |

The Council has contracted Vodafone to provide a wide area network and managed firewall services, enabling it to replace the existing and expensive OCN service provided by Capita. The Capita contract has been extended from 31st March 2014 to cover the migration period.

A governance structure has been agreed for the MCS programme and includes a Project Team, Management Group and a Strategy Group. However, the Project Team and Strategy Group do not have formal terms of reference and the terms of reference for the Management Group are not valid, as they only relate to the group's post implementation responsibilities for managing the MCS contract. The roles and responsibilities of OCC staff involved in the programme also need to be further defined.

A project plan, risk log and issues log are maintained by both Vodafone and OCC. The OCC versions are specific to its areas of responsibility and a review of each document has identified weaknesses that need to be addressed.

There are systems in place for managing and reporting on programme finances. However, it is noted that the budget code used for recording programme costs is not exclusive to the MCS programme and includes other ICT strategic initiatives. Whilst this has potential risks, these are currently being managed.

The rollout of MCS will include a pilot phase, to allow any errors and issues to be identified and resolved before work begins on migrating other sites.  Formal test plans and sign-offs will be used for each site.

**Early Years Payment Process 2014/15**

| | | |
|---|---|---|
| Opinion: Amber | 23/07/2014 | |
| Total: 04 | Priority 1 = 01 | Priority 2 = 03 |
| Current Status: | | |
| Implemented | 1 | |
| Due not yet actioned | 0 | |
| Partially complete | 0 | |
| Not yet Due | 3 | |

**1. Maintained Schools**

The pupil count data cleansing process is managed by the Performance & Information team in SCS (Social & Community Services). Their automated and manual checks to identify duplicate or inaccurate claims are adequate. However from review of the Spring 2014 payments, the final cleansed data was not sent to the finance team for payment; instead data which was still being worked on was used for the payment run, resulting in a number of incorrect payments. The team have acknowledged this was inadequate and going forward there will be greater clarity on timescales for sending data to Finance and better communication on the data required by the Finance team. Statements listing each child and payment amounts are not issued to schools (they are issued to PVI's), so the likelihood of schools identifying such errors are lower. (PVI = Private, Voluntary and Independent Early Years Settings).

The government funding we receive for academies is generated from the data academies input to the separate COLLECT system. However, internally within OCC, academies are administered under the PVI process, and their data is input to ONE (main pupil database maintained by OCC) by the NEF team, which in turn informs our payment amounts to academies. The two systems are not reconciled to ensure there are no disparities between the two, creating a risk that the funding we receive from central government for the academies may not match the funding we pay out to academies.

**2. PVIs**

The PVI process is managed by the Nursery Education Funding (NEF) Team in OCS. There are additional controls governing the PVI process compared to the maintained schools, and the claims process itself is more complex and administratively heavier. The team consists of 3 posts, but have carried one vacancy for some time. They have experienced issues following the recent system upgrade to the ONE system. Despite these setbacks, the audit testing found no inaccuracies or gaps in control. Funding Agreements with providers were in place and tracked adequately; over and underpayments were logged and included in subsequent payment rounds; and reconciliations are undertaken between SAP payments and ONE to identify any discrepancies. The team run both automated reports from ONE and undertake numerous checks on Excel spread sheets to identify duplicates and anomalies or errors, with issues adequately investigated and resolved. The team usually undertake spot checks of 20 providers each term, to request evidence of the Parental Declaration forms and invoices. However, these checks had not been undertaken this year, reportedly due to capacity issues.

**3. Two year old funding**

Two Year old funding is managed by the Early Years Sufficiency & Access Team in CEF. This funding stream differs in that it is not universal, but applies only to the 40% most disadvantaged 2 year-olds. The process set up to administer the 2 Year Old Funding is robust. The team use a sophisticated purpose-built Excel spread sheet, which automatically calculates payments due (including over payments and adjustments), identifies duplicate entries and anomalies such as funding beyond entitlement and automatically produces the claim sheets and statements for each provider. From the sample of 10 payments reviewed, no errors or issues were identified. However, from a review of the payments authorisation, it was noted that payment requests have been split in order to bypass the Scheme of Delegation.

The audit noted that the targets set by central government for the take-up of 2 Year Old free nursery places are not being achieved. Whilst this currently does not affect the amount of funding OCC receive, from January 2015 funding will be calculated upon actual take-up (through the schools census), and efforts are currently being made therefore to increase the take-up figures in advance of this date.

**Client Charging 2014/15**

| | | |
|---|---|---|
| Opinion: Amber | 26/08/2014 | |
| Total: 10 | Priority 1 = 02 | Priority 2 = 08 |
| Current Status: | | |
| Implemented | 3 | |
| Due not yet actioned | 0 | |
| Partially complete | 0 | |
| Not yet Due | 7 | |

An audit of Client Charging was undertaken in 2012/13 (report issued at the end of March 2013). The overall conclusion was Unacceptable and there were 32 management actions agreed. 12 were priority 1 management actions and 20 were priority 2 management actions.

There has been significant work by both SCS and OCS to address the weaknesses identified and all 32 management actions had been reported as implemented by the officers responsible. Key actions implemented include the completion of workshops with staff from OCS and SCS to review client charging processes, improved and more comprehensive client charging performance information and a number of relevant policies and procedures created or updated (including the Contributions Policy).

This year's audit has included follow up on all of the management actions agreed as a result of the 12/13 Internal Audit in order to confirm whether the implementation of the management actions agreed has been effective in mitigating the risks highlighted. Of the 32 management actions tested, 23 have been confirmed as implemented. However 9 have been confirmed as only partially implemented and not working effectively. For the 9 management actions identified as not fully implemented or working effectively, 3 were priority 1 actions and 6 were priority 2 actions. These actions have either been re-stated or revised and are included within this report. Key issues that are outstanding include:

- Whilst the reconciliation of all SDS (Self Directed Support) client accounts for 12/13 were completed and necessary adjustments made, at the time of the audit (end of May 2014) the reconciliations for 13/14 had not been undertaken, although the first quarter for 2013/14 had been calculated. By the time the audit report was issued (July 2014), the initial calculations for 13/14 had been completed and the refunds were in the process of being checked before being processed. The Contributions Policy states that this reconciliation should happen quarterly (acknowledging that the Policy was not finalised by SCS until January 2014). This issue is not being included within the regular performance information provided to SCS although the SCS Finance Business Partner was aware of the position which had also been reported to the SCS Finance Liaison meeting.

- There is a lack of clarity on the basis of charging, as at the moment a mixture of Personal Budgets and actuals are used. Different authorities reportedly use a variety of approaches and it is hoped that the Care Bill may provide clarity on this.

- Although the period of free care has been reviewed and clarified and is documented in the ASC Contributions Policy, the Financial Assessments Team are not receiving clear information in circumstances where Reablement and Discharge to Access care continue past the 6 weeks allowed free of charge. There is currently no mechanism in place for SCS to inform the Fairer Charging Team to enable them to ensure the financial assessment process is initiated for clients receiving more than 6 weeks reablement care.

- During 13/14 there had been an issue with some clients being undercharged for day centre attendance following Cabinet approval of revised charges. The Fairer Charging Team Manager reported that the charges had not been updated on the system as the team had not been notified by SCS of the September 2013 increase until February 2014.

- Due to the manual nature of data input, there have historically been issues with accuracy within the Financial Assessments team. In 2011/12 management actions were agreed to address this by re-introducing sample checking. In 2012/13 this was identified as still being an issue and the management action was re-stated. Testing during this audit has identified that within the Fairer Charging Team it has been possible to confirm that regular sample checking is now taking place and that issues noted are being addressed promptly. However whilst there is evidence that sample checking was being undertaken within the Residential Team between November 13 and January 14, no sample checking has been undertaken since then, management have explained that this was due to exceptional levels of staff shortages.

- In 2010, exception reporting was developed to identify clients recorded on Swift (main client database), receiving a service which comes under fairer charging, that were not recorded on Abacus (client charging system). The aim of this and other exception reporting developed, for example ETMS exception reporting, (ETMS = Electronic Time Management System) is to promptly identify clients that need to be financially assessed, but are not known to the Financial Assessments Team in order to limit the amount of foregone income as far as possible. During the 2012/13 audit it was identified that regular exception reporting had stopped and also that roles and responsibilities within SCS in relation to reviewing and taking action on the reports produced had become unclear due to staffing changes and restructuring within the directorate. Internal Audit have confirmed during this audit that the exception report has been reviewed, discussed with SCS and has been refined, so it is now fit for purpose however it has only been possible to confirm that the exception report has been provided to SCS and reviewed by locality teams for one month (October 2013). No regular comparison of Swift and Abacus records has therefore been taking place. It should be noted however that once this was raised by Internal Audit, immediate action has been taken to rectify this and re-introduce the monthly reporting from June 2014. It was noted that one of the anomalies picked up during the October report highlighted that one client had potentially been in receipt of a chargeable service, without having been charged for 3 years. Further investigation highlighted this was a unique error and related to a client that had previously been assessed as nil cost and fairer charging had stopped when he went into a residential educational establishment. Whilst it is clear that the client did not receive a continuous service which would have been subject to fairer charging over the three year period, it has not been possible to reconcile whether there were short term periods of care which would have been subject to a financial assessment. Internal Audit do not consider this to be a material error and it is unlikely to have had any financial impact, however it reinforces the importance of undertaking the monthly exception reporting between Swift and Abacus. A financial assessment was completed for this client in December 2013 following the exception report analysis. It is noted that this exception reporting is an interim arrangement, as the new ASC IT system will work from a common set of data.

- A small sample of walkthrough testing indicated that financial assessments are being processed promptly and accurately within the Fairer Charging section of the Financial Assessments Team, however also highlighted instances where SCS did not refer clients for financial assessments promptly to the team. Performance reporting indicates there remains an underlying level of late referrals and instances where no referral has been received. Information on these cases is sent regularly to SCS Area Service Managers for investigation and action.

- A small sample of walkthrough testing of assessments completed within the Residential section of the Financial Assessments Team noted minor issues with the completion of financial assessments within timescales. However audit did note one instance where sufficient evidence was not obtained from the client and another where a client was not charged full cost whilst waiting for more information to be provided (which is inconsistent with other clients).

- Performance Indicators are being reported monthly to the SCS/Finance meetings. Performance with regards Foregone Income peaked in October 2013 at £63,000, as a result of clearing the backlog of clients requiring an assessment. Figures have since reduced. High level income figures are monitored monthly at the Commissioning and Finance Officers' Group (CFOG), however it is planned that after September 2014 these will be allocated to Locality teams to be monitored in more detail.