

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 11 September 2019

INTERNAL AUDIT 2019/20 PROGRESS REPORT

Report by the Director of Finance

RECOMMENDATION

1. The committee is RECOMMENDED to note the progress with the 19/20 Internal Audit Plan and the outcome of the completed audits.

EXECUTIVE SUMMARY

2. This report provides an update on the Internal Audit Service, including resources, completed and planned audits. A separate update is made on counter-fraud activity, which will be reported to the November Audit & Governance Committee.
3. Efforts to recruit to the vacant Senior Auditor post (vacant Auditor post since March 2019, regraded to a Senior Auditor post) are ongoing. In the interim there is some cover with brought in resource and therefore the plan is currently on track for delivery – however this will need to be reviewed again in October / November dependent on what resources can be secured for quarters 3 & 4.
4. The report includes the Executive Summaries from the individual Internal Audit reports finalised since the last report to the May 2019 Committee. Since the last update there have been no further reports issued with the grading of red. Previous reports with the grading of Red continue to be monitored by the Audit Working Group for implementation.

PROGRESS REPORT:

RESOURCES

5. A full update on resources was made to the Audit and Governance Committee in May 2019 as part of the Internal Audit Strategy and Plan for 2019/20. Since then recruitment has commenced for a Senior Auditor. This is to replace the vacant Auditor post (who left in March 2019). Acknowledging the resource requirements of the team and complexity of work now within the Internal Audit plan this post has been regraded from Auditor to Senior Auditor.
6. The proposal to recruit an in-house counter fraud officer has also been approved and recruitment has been initiated. The grading for the post has been approved comparable to a Senior Auditor level and we are being supported by the Hertfordshire Fraud Hub with the recruitment and selection process. Depending on applications received we are looking to interview at the beginning of October. The recruitment of this post (initially 12-month contract) will reduce some of the impact that the operational counter fraud work currently has on the internal audit resource and also enable capacity to identify and develop the strategy and counter fraud model of delivery going forward, as outlined in the Counter Fraud Strategy update made to the July 2019 Audit & Governance Committee.
7. The Auditor and Audit Manager continue to undertake professional study, undertaking the Chartered Internal Audit Qualification. They both have passed their recent exam and have one more exam to complete.

2019/20 INTERNAL AUDIT PLAN - PROGRESS REPORT

8. The 2019/20 Internal Audit Plan, which was agreed at the May Audit & Governance Committee, is attached as Appendix 1 to this report. This shows current progress with each audit.
9. To date, there have been 4 amendments to the plan for 2019/20, 3 additions to the plan and 1 audit that has been merged with another. These are also recorded in Appendix 1. The plan and plan progress is reviewed quarterly with the individual directorate leadership teams.
10. There have been 5 audits concluded since the last update (provided to the May meeting of the Audit and Governance Committee); summaries of findings and current status of management actions are detailed in Appendix 2. The completed audits are as follows:

Directorate	2019/20 Audits	Opinion
Children's	Thriving Families Claim 1	n/a
Resources - ICT	Cyber Security	Amber
Adults	Review of Contract Award Process – specific Adults contract.	n/a
Corporate /Resources	Induction	Amber
Resources	Duplicate payments	Amber

PERFORMANCE

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

Performance Measure	Target	% Performance Achieved for 19/20 audits (as at 27/8/19)	Comments
Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	75%	Previously reported year-end figures: 2018/19 69% 2017/18 80% 2016/17 60% 2015/16 58%
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 days	86%	Previously reported year-end figures: 2018/19 82% 2017/18 95% 2016/17 94% 2015/16 96%

Elapsed Time between issue of Draft report and issue of Final Report.	15 days	80%	Previously reported year-end figures: 2018/19 85% 2017/18 92% 2016/17 75% 2015/16 48%
---	---------	-----	---

The other performance indicators are:

- % of 2019/20 planned audit activity completed by 30 April 2020 - reported at year end.
- % of management actions implemented (as at 13/8/19) - 72%.
Of the remaining there are 17% of actions that are overdue and 11% of actions not yet due.

(At May 2019 A&G Committee the figures reported were 80% implemented, 9% overdue and 11% not yet due)

- Extended Management Team satisfaction with internal audit work - reported at year end.

COUNTER-FRAUD

12. The 2019/20 Counter-Fraud Plan progress update was presented to the July 2019 Audit & Governance Committee, the next update will be reported to the November 2019 Audit and Governance Committee.

Sarah Cox
Chief Internal Auditor

Background papers: None.
Contact Officer: Sarah Cox: 07393 001246

APPENDIX 1 - 2019/20 INTERNAL AUDIT PLAN - PROGRESS REPORT

Audit	Planned Qtr start	Status	Conclusion
Corporate / Cross Cutting			
Contract Procurement – Decision Making	Q3/Q4		
Governance – Directors Assurance	Q3		
Governance – Service / Establishment audit	Q3/Q4		
Induction	Q1	Final Report	Amber
Risk Management	Q4		
Performance Management	Q4		
Transformation Governance	Q3		
Follow up – Health & Safety	Q4		
Follow up – Business Continuity	Q4		
Oxfordshire Local Enterprise Partnership	Q2	Exit Meeting	
Adults / Children			
Transitions from Children to Adult Services	Q4		
Adults: Hospital Social Work Teams	Q1	Fieldwork	
Adults: Payments to Providers	Q2/Q3		
Adults: Client Charging	Q2/Q3		
Adults: Direct Payments	Q3/Q4		
Adults: Contract Management	Q2	Fieldwork	
Adults: IT Audit Application Review – CM2000	Q2	Fieldwork	
Children: Payments via ContrOCC	Q3/Q4		
Children: LCS Social Work Recording	Q3/Q4		
Children: Placements	Q1	Fieldwork	
Children: Family Safeguarding Model	Q3		
Children: Children Missing Education	Q2	Fieldwork	
Children: SEND	Q3		

Children: Troubled Families – Claim 1	Q1	Complete	n/a
Children: Troubled Families – Claim 2	Q2		
Children: Troubled Families – Claim 3	Q3		
Children: Troubled Families – Claim 4	Q4		
Children: School Admissions	Q2	Fieldwork	
Communities			
Oxford City Agency Agreement for Highway Maintenance	Q1	Exit Meeting	
Property & Facilities Management	Q3		
Highways Contract Payments	Q3		
Communities / Resources			
Capital Programme – Formulation and Prioritisation	Q4		
Capital Programme – Procurement	Q2	Fieldwork	
Oxfordshire Housing and Growth Deal – Accountable Body	Q3/Q4		
Resources			
Pensions Administration	Q3		
Pension Fund	Q1/Q2	Draft Report	Amber
Purchasing / Procurement / Accounts Payable – Duplicate Payments	Q1	Final Report	Amber
Payroll	Q4		
IT Audits			
Backup and Recovery	Q4		
IT Incident Management	Q4		
Data Centre Refresh	Q2		
Cyber Security	Q1/Q2	Final Report	Amber
IT Disaster Recovery Planning	Q3		
IT Project Governance	Q2	Draft Report	Amber
NHS Data Security and Protection Toolkit	Q4		
(IT Application Review – see Adults plan)	-	-	-

Amendments to 2019/20 plan:

<p>Addition to agreed plan: Security Bonds</p>	<p>An Internal Audit of Security Bonds was completed in 2017/18 which had an overall conclusion of red. One of the areas where key control weaknesses were identified was in relation to the recording and administration of security bonds. Following the audit, concerns were also raised about the processes for recording, reducing and returning cash bonds, agreed for some S278 and S38 agreements. Work has been undertaken within the service to identify cash bonds currently in place, however there has been no reconciliation of cash expected to cash actually held by the Council on SAP.</p> <p>The audit will focus on a probity review of transactions to provide assurance that security bonds, in particular cash bonds, are recorded completely and accurately, that monies received are properly accounted for and that the processes in place for the reduction and return of cash bond monies held are appropriate.</p>	<p>Fieldwork</p>
<p>Addition to agreed plan: Q1 advice to schools</p>	<ol style="list-style-type: none"> 1) Internal Audit were requested to independently review the methodology used by Finance to confirm the financial positions of three schools following their defederation. – This has been completed and confirmed as appropriate and reasonable. 2) Advice provided to a new Chair of Governors for and IEB of a primary school where weaknesses with governance and internal control arrangements of previous management had been identified. Additional work undertaken by Internal Audit to analyse procurement card expenditure. 	<p>Complete</p> <p>Complete</p>
<p>Addition to agreed plan: Adults: Review of Individual Contract Award Process</p>	<p>Internal Audit were requested to undertake a review into a recent Contract Award process. Concerns were raised by management due to the award and transfer process failing at the last minute, resulting in the incumbent provider being requested to continue in the interim. This review fits in to an audit scheduled later in 2019/20 on Contract Procurement – Decision Making. The review findings will therefore feed in to the wider audit where they are relevant to broader issues.</p>	<p>Final Report</p>

Deletion from agreed plan: Children's – Capita One Payments Module	The system will not be used to generate payments, instead a module is being implemented. This will provide more robust financial and performance management information for SEND than the spreadsheets currently used. It was agreed therefore to merge this with the wider audit of SEND planned later in the year, covering the implementation of this new module. The SEND audit will provide assurance over the accuracy and integrity of payments via existing processes and budget management.	Merged with Audit of SEND.
---	--	----------------------------------

APPENDIX 2 - EXECUTIVE SUMMARIES OF COMPLETED AUDITS

Troubled Families June Claim 2019/20

Opinion: n/a	19 June 2019	
Total: 4	Priority 1 = 0	Priority 2 = 4
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	4	

Since the start of Phase 2 of the government's Troubled Families programme in September 2014, OCC has submitted between 2 and 3 claims per year. During 2019/20 this will change to quarterly submissions with a view to maximising the volume of claims, particularly as this is due to be the final year of the Programme. The Financial Framework states that all claims must be reviewed by Local Government Internal Auditors prior to submission to MHCLG. Both the progress objectives and the initial eligibility for the Programme should be verified.

5 management actions were agreed as part of the audit of the previous claim (March 2019). 3 have been confirmed as implemented, however 1 action, relating to duplicate checks, had not been effectively implemented, with Internal Audit again identifying several instances in which families had been included in previous claims. Another action is partially implemented (New Claim Process), with improvements noted in the claims checking process and the master spread sheet, however some issues were identified with the robustness of this.

The audit checked a sample of at least 10% for both claims (35 families from the SSP claim, 3 of which were ultimately removed from the claim following audit checks, and 1 from the Continuous Employment claim), to ensure that they met the relevant criteria for payment and had not been duplicated in the current or previous claims. Their initial eligibility criteria for inclusion in the Programme were also checked.

Overall Conclusion

The audit noted improvements in the updated internal processes for data checking and validation, however as with previous claims, issues were noted in relation to duplication, eligibility criteria, and family residency. These issues had not been identified prior to the initial submission of the claim to Internal Audit and were reportedly mostly due to data quality issues. Further to satisfactory responses being received against all queries raised by Internal Audit, the claim was signed off.

Cyber Security 2019/20

Overall conclusion on the system of internal control being maintained

Amber

Opinion: Amber	12 July 2019	
Total: 14	Priority 1 = 0	Priority 2 = 14
Current Status:		
Implemented	2	
Due not yet actioned	1	
Partially complete	0	
Not yet Due	12	

Overall Conclusion

Cyber security has been a high priority business risk for a number of years and this shows no signs of abating given the seemingly endless reports on network security breaches, ransomware, and other cyber-attacks. It is not practical to cover all areas of cyber security in a single audit and hence this review has been scoped around different risk areas to the cyber audit completed in 2017, with the exception of the area on vulnerability assessments and security patching, which is key to maintaining a secure ICT environment. Other IT audits completed since 2017 and planned for 2019/20 also provide assurance on cyber security.

Whilst the audit has identified a number of risks, we would like to acknowledge the continued efforts of ICT to improve security controls and defences against cyber-attacks. This includes achieving the government backed Cyber Essentials Plus accreditation and also utilising services from the National Cyber Security Centre, such as Web Check and Protective DNS, to shore up cyber defences.

Wireless networks are available to guest and corporate users and are managed using wireless controllers, which have details of all Access Points and allow central configuration of security. Security configurations are applied, including industry standard encryption, and a recent security penetration test concluded that the corporate wireless network was "well protected against attack." However, we have found that there is no formal policy on wireless networking and that there is weak user authentication on the wireless controllers.

There is a firewall at the network boundary that is externally managed and a number of firewalls at other gateways that are managed by the Technical Services team in ICT. We found that firewalls are not running the last version of software, although there are plans to upgrade to this in the coming weeks. Firewall interfaces and rules are not fully documented. Access to firewalls needs to be improved by restricting it to only those users who are responsible for their management.

Privileged access is restricted, and ICT users have separate accounts for standard and administrator access, in accordance with good practice. However, controls can be further enhanced by having a formal authorisation process for granting privileged access.

All client machines are patched regularly and there is a scheduled job to confirm that updates have been successfully deployed. A patching checklist has been developed for ICT engineers to follow when they patch servers, however, we found that it is not always signed-off to confirm all steps have been completed, including performing re-scans to ensure that servers are up-to-date.

Supply-chain security is a key area and further work is required to ensure current and new suppliers have adequate levels of cyber security in place. This can be achieved by revising the procurement process and further developing the Information Management Risk Assessments to include cyber security.

Individual Contract Award Review 2019/20

Opinion: N/A	17 July 2019	
Total: 10	Priority 1 = 9	Priority 2 = 1
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	10	

Internal Audit were requested by management to undertake a review into a recent Contract Award process within Adults, due to the award and transfer process failing at the last minute, resulting in the incumbent provider being requested to continue in the interim. This review covered:

- Establishing the timeline of events from invitation to tender, to contract award and process failure.
- Reviewing roles and responsibilities in the whole process between Commissioning, Procurement, Contract Management, Finance and Legal.
- Governance and decision-making supporting the contract award.
- Efficiency and effectiveness of the whole process, specifically procurement and mobilisation.

This review fits in to an audit scheduled later in 2019/20 on Contract Procurement – Decision Making. The review findings will therefore feed in to the wider audit where they are relevant to broader issues (i.e. not only specific to this contract).

Key Findings

- Improvements are required to pre-tender evaluations, including the assessment / decision-making regarding quality and cost.
- The risk assessments informing contract award insufficiently factored in the ‘newcomer’ risk (new supplier to Oxfordshire market).
- The governance and oversight of the Gateway Review Panel (GRP) needs strengthening, this case highlighted that GRP’s challenge and scrutiny of the award recommendation to verify there has been adequate assessment of risks, quality and cost issues was not effective. Also, in practice GRP do not have continued oversight of the procurement to completion of Gate 4 (as per the Contract Procedure Rules) to ensure post-award issues are identified, escalated and addressed in a timely manner. Gate 4 was not undertaken, and it was reported to Internal Audit that Gate 4 no longer routinely takes place.
- Contract signing needs to happen more quickly and before mobilisation is underway. In this case, the contract was issued late (6 weeks after contract award). The delay to contract signing was also the cause of non-receipt of the

Parent Company Guarantee, as this was issued and to be returned with the contract.

- The mobilisation process needs improved governance, a clearer process and escalation / red flag points. This has been recognised by Contracts and the team are developing a new and strengthened process and guidance.
- The time delay between commencement of procurement to transition was lengthy (almost a year) and requires improved oversight to ensure timescales are adhered to.

The audit noted the work currently ongoing on the “Provision Cycle” to review the full cycle from Commissioning, Procurement through Contract Monitoring. Some of the issues identified during this review are likely to be captured in this Provision Cycle work.

The audit also noted areas of good practice, including:

- ✓ Clarity of current roles and responsibilities between Commissioning, Contracts and Procurement (acknowledging that these may be subject to review by the current “Provision Cycle” review).
- ✓ Requirement for the Parent Company Guarantee was identified and insisted upon to mitigate the financial risk of a new provider.
- ✓ Excellent documentation of transition meetings & action points.
- ✓ A new process (following the recent internal audit of Supplier Resilience) was implemented to escalate where a contract had not been signed 1-month prior to go-live.

Overall Conclusion

The Council was left exposed to a number of risks as a result, including potential impact on service delivery, increased financial liability and reputational impact. Whilst some of the issues are specific to this service and contract area, which has a particular set of historical issues and challenges, there are a number of wider learning points for the Council to consider. In particular, regarding the cost/quality assessments of bids based on how this assessment is structured in the invitation to tender, the scrutiny and evidence-base for contract award, how ‘newcomers’ are assessed against established providers and the oversight and challenge function of the GRP.

Induction Audit 2019/20

Overall conclusion on the system of internal control being maintained	Amber
--	-------

Opinion: Amber	13 August 2019	
Total: 13	Priority 1 = 2	Priority 2 = 11
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	13	

RISK AREAS	AREA CONCLUSION	No of Priority 1 Management Actions	No of Priority 2 Management Actions
A: Governance, Roles and Responsibility	A	2	3
B: Induction and Probation Process	A	0	4
C: Training*	R	0	4
		2	11

** Key risk exposures in relation to Risk Area C will be addressed through the implementation of the Priority 1 management action detailed under Risk Area A.*

As noted in the 2018/19 HR Corporate Lead Statement, it has been acknowledged that there are weaknesses in the current induction process, specifically in terms of the consistent use of induction checklists, in the robustness of probation period sign off arrangements and in the central storage of key employee records. The Corporate Lead Statement refers to the implementation of actions covering development of new protocols which will enable managers to access employee documentation that they have uploaded to the central electronic records system (although the coverage of this in terms of induction documentation is not fully clear), a full review of the induction process including increased publicity of induction resources available to new staff and their managers and the implementation of a more robust sign off process at the end of the probation. Following the audit exit meeting, the Deputy Director for HR has determined that a full review of the induction and probation process will be undertaken, which will result in a paper being presented to CEDR for agreement as to how weaknesses in current processes will be addressed.

Governance, Roles and Responsibilities – Whilst the role of managers and new starters in relation to induction was found to be clearly defined and documented within the Induction & Probation policy and intranet guidance, the responsibilities of HR and OD (Organisational Development) are not clearly documented and so may not be understood by line management or new starters. There is also a lack of corporate ownership and assurance in relation to the completion and monitoring of mandatory e-learning. Other issues noted from the testing undertaken in this area include a lack of clarity or guidance for managers over how new starters without IT access should complete mandatory e-learning.

Induction and Probation Process – Concerns over the consistency of completion of induction checklists were raised in the HR Corporate Lead Statement. Whilst sample testing undertaken as part of this audit found that induction checklists had been completed for the majority of cases reviewed (24/30), there were 2 instances where it was reported that no induction checklist was available / had been completed (in one of these cases the line manager has now left the Council) and in a further 4 cases it was not possible to confirm what induction documentation was available as no response was provided by either the manager or new starter. Anecdotally, it was also reported that induction documentation was often found to be poor by HR when trying to deal with issues during the probation period. There is currently no

requirement to store induction checklists or confirmation of successful completion of probation period letters centrally, it is not currently clear whether this will continue to be the case going forward.

Training – There is no consistent process at a corporate level for the monitoring and reporting on the completion of mandatory e-learning. Whilst content owners for the health and safety e-learning and Children’s mandatory safeguarding training have or are in the process of developing processes following review of this area as part of audits completed during 2018/19, completion of the other mandatory e-learning courses are not being monitored. The current IT system used to record completion of mandatory training can only report on who has completed the training, it cannot report on who has versus who should have completed it. Testing undertaken as part of this audit has found that for new starters covering the period May 2018 to April 2019 only 4% had completed all mandatory training and attended a corporate induction session within their first 8 weeks of working for the Council. 15% of new starters had not completed any mandatory e-learning or attended corporate induction. 31% of new starters had completed all 6-mandatory e-learning courses. Completion rates on the individual courses varied from 53-66% with the lowest completion rates being Acceptable Use of Information and the highest the Introduction to Health & Safety e-learning (this is as a result of increased focus on monitoring and reporting on completion of this e-learning following management actions agreed as a result of the 2018/19 Health & Safety audit). Including those booked on to attend the next corporate induction session in August 44% of the new starters included in this testing have or are intending to go on the corporate induction session.

Reference to specific training required for managers is currently limited to intranet information on the health and safety for managers classroom-based training. Whilst there is reference to consideration of finance and safeguarding training requirements in the induction checklist, there is a lack of training and information for managers on how to complete specific manager HR and finance specific tasks. It was reported that a management programme is in the process of being developed by OD. Additionally, the provision of financial training is being reviewed by Corporate Finance and going forward, it is planned that there will be refreshed intranet guidance, mandatory e-learning and one to one training sessions for individual managers to provide intensive support in using IBC and completing key financial tasks.

In addition to the lack of assurance over completion of mandatory training, there is no clear process for the regular review and sign off of what is considered to be mandatory and any changes that need to be made in this respect.

It has been reported that corporate induction is in the process of being reviewed, with consideration being given to changing the current format, making the session shorter and moving some of the content on line in order to make the session more accessible to new starters and increase coverage and attendance.

Duplicate Payments 2019/20

Overall conclusion on the system of internal control being maintained	Amber
--	--------------

Opinion: Amber	14 August 2019	
Total: 1	Priority 1 = 0	Priority 2 = 1
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	1	

The 2019/20 Accounts Payable audit focused on duplicate payments, considering the internal controls in place to prevent, identify, and recover duplicate payments to creditors, and the assurance provided to senior management on this area. The review was performed on a sample basis using matches from the 2018/19 National Fraud Initiative (NFI) data set (potential duplicate creditor accounts, duplicate payment records and employees who received payment as a creditor).

Sample testing of over 150 data matches did not identify any outstanding duplicates; the majority of matches sampled had legitimate reasons for appearing on the report (e.g. quarterly payments with the same reference, or an additional vendor account being set up for invoicing plans). Three instances were identified in which there had been an error in payment, however these had been identified by the relevant service prior to the NFI exercise, with the incorrect payments already recovered in all three cases.

While all payments to creditors are managed by Hampshire County Council Shared Services, OCC Corporate Finance are responsible for the identification and recovery of duplicate payments. However, the process currently in place, in which monthly duplicate reports from Hampshire are reviewed by Corporate Finance, is inadequate and has not been happening regularly due to staff resource and the availability of reports. At the time of audit testing in June 2019, the December 2018 duplicate report was being reviewed, six months after the payments had been made, and no further reports had been received from Hampshire since, due to them moving to a different system.

Due to the inadequate process currently in place to identify and recover duplicate payments, there is little reporting on the volume or value of duplicate payments identified and/or recovered, and no qualitative reporting or analysis of the causes of the duplicates. While the results of Corporate Finance's duplicate checks demonstrate the need to continue this work (as duplicates have previously been identified), the lack of reporting means there is no assurance to management that the recovery of duplicate payments is being managed effectively, and it has not been possible to quantify the amount OCC has overpaid in duplicates, or the amount recovered.

This issue was previously identified in the 2016/17 Accounts Payable audit and again in the 2017/18 Purchasing audit, in which it was identified that the 2016/17 action had not been implemented. In June 2018 the action was closed, reporting management information was being circulated, however responsibility for recovery of duplicate payments has since moved teams, and this information is no longer produced for senior management. It is intended the new system to be implemented with Hampshire will enable improvements in reporting, providing real-time information on payments made and duplicates blocked.

Overall Conclusion

Sample testing of NFI data matches did not identify any previously unidentified and unrecovered duplicates, indicating that controls to identify payments made in error had worked effectively in the sample reviewed. However duplicate payments have been identified from the Corporate Finance retrospective checks, indicating that some payments have passed previously un-noticed. These retrospective checks are not undertaken in a suitably timely manner and management information is not produced on the results. Furthermore, when duplicates are identified, there is no analysis into the cause of the overpayment and remedial action required (e.g. staff training & awareness).

Management are already working on addressing the inadequacy of these current arrangements, with a view to implement a new, preventative system that will have the ability to block duplicate payments before they are made and allow improved, real-time reporting.