

Buckinghamshire County Council

# **Business Assurance Progress Report 2015/16**

**Regulatory and Audit Committee**

**April 2016**



## **Contents**

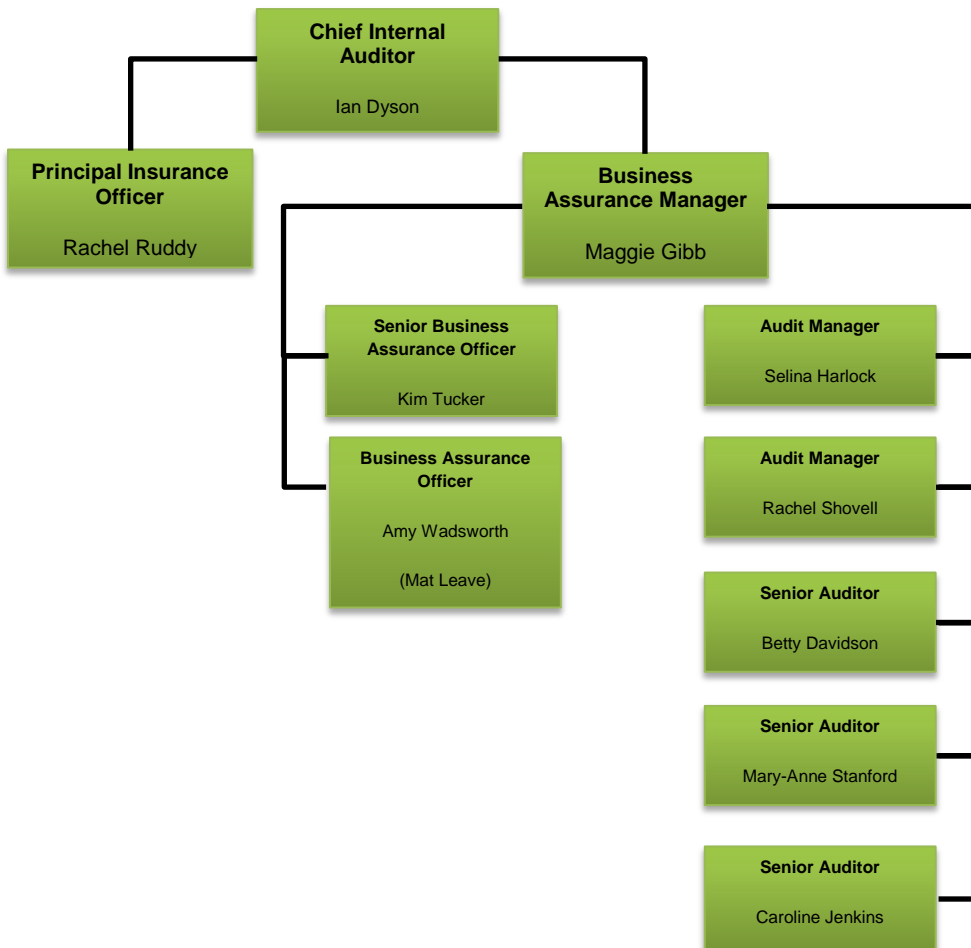
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## Introduction

1. The Internal Audit Plan is attached as Appendix 1 to this report, and includes a progress status on the previously reported planned activity.

## Resources

2. The Business Assurance Team resources have remained stable during Q4 of 2015/16.



However, Oxfordshire County Council has given notice to end the current audit collaboration that involves sharing the role of the Chief Internal Auditor, Ian Dyson, with effect from 1 June 2016.

The impact will be mitigated by the skills that exist within the Internal Audit Function and the Business Assurance Team. In the short term Maggie Gibb, Business Assurance Manager will act up as the Interim Chief Internal Auditor with effect from 1 April 2016. Ian Dyson will retain responsibility for 2015/16, including the Chief Internal Auditors annual report and the preparation of the 2015/16 Annual Governance Statement, which he will present to the Committee at what will be his last meeting on 25 May 2016.

## Internal Audit

3. There have been four audits completed since the last report, and four that are currently at draft report stage:

Service	Audit	Opinion
HQ	<p><b>Contract Management Application</b></p> <ul style="list-style-type: none"> <li>➤ The audit followed up on the progress of implementing the actions raised in the 2014/15 Limited Assurance Internal Audit Report.</li> </ul>	Draft
BSP	<p><b>Payroll</b></p> <ul style="list-style-type: none"> <li>➤ The audit focused on controls in place in relation to: Policies and Procedures; System Access and Data Integrity; Starters and Leavers; Expenses; Variations; Overpayments; Pay Runs; and Reconciliations.</li> </ul>	Draft
BSP	<p><b>General Ledger</b></p> <ul style="list-style-type: none"> <li>➤ The audit focused on controls in place in relation to: Risk Management; Policies and Procedures; System Access and Data Security; Financial Information and Reporting; Coding Structure; Feeder Systems; Journals and Internal Transactions; Suspense and Holding Accounts; Bank Reconciliations and Final Accounts.</li> </ul>	Limited
BSP	<p><b>Accounts Receivable</b></p> <ul style="list-style-type: none"> <li>➤ The audit focused on controls in place in relation to: Risk Management; Policies and Procedures; System Access, Data Security and Integrity; Customer Creation; Cash Receipting; Debt Recovery; Debit and Credit Card Payments; Control Accounts; and Bank Reconciliations.</li> </ul>	Draft
TEE	<p><b>Financial Management</b></p> <ul style="list-style-type: none"> <li>➤ The audit focused on controls in place in relation to: Risk Management; Policies and Procedures; System Access and Data Security; Financial Information and Reporting; Coding Structure; Feeder Systems; Journals and Internal Transactions; Suspense and Holding Accounts; Bank Reconciliations and Final Accounts.</li> </ul>	Reasonable
CSC&L	<p><b>Commissioning – Residential Placements</b></p> <ul style="list-style-type: none"> <li>➤ The audit was commissioned following an investigation into residential placements, and focused on confirming of the adequacy and effectiveness of the system of internal controls in place.</li> <li>➤ The audit covered the following key areas: Selection of Residential Providers, Contracts, Ofsted Judgements, Invoice Payments and Monitoring of Residential Providers.</li> <li>➤ Seven high priority and one medium priority recommendations raised.</li> </ul>	Limited

CSC&L	<p><b>Beechview School</b></p> <ul style="list-style-type: none"> <li>➤ The audit focused on controls in place in the following key areas:</li> <li>➤ Governance; Financial Management and Control (including budget setting and budget monitoring); Procurement, Contracts and Leases; Accounts Payable (including Local Bank Account and Purchasing Cards); Income and Cash Management (including School Voluntary Fund)</li> </ul>	Final Draft (for OCB)
ASC	<p><b>Payments to Providers – Follow Up Audit</b></p> <ul style="list-style-type: none"> <li>➤ The original audit covered the arrangements in place for the payments to providers of adult social services for domiciliary, residential, and nursing care. This audit was reported in Q1 15/16 with a “limited” level of assurance.</li> <li>➤ The follow-up audit involved interviews with those senior management and those officers responsible for implementing the management actions, a review of supporting documentation as evidence where possible and limited testing of the effectiveness of the controls</li> </ul>	Reasonable
CSC&L	<p><b>AMEY Contract – Follow Up Audit</b></p> <ul style="list-style-type: none"> <li>➤ The follow-up audit included interviews with senior management and key officers involved in the implementation of the management actions. The scope of the audit was to understand the process that have been implemented and gain comfort over the effectiveness of the controls through limited testing and, review of supporting documentation</li> <li>➤ 10/19 management actions had been fully implemented at the time of the audit, 4/19 partially implemented and 3/19 are no longer applicable. Two actions remained outstanding at the time of the audit.</li> </ul>	Management Letter - Reasonable

**Note:**

*BSP – Business Services Plus*

*CH & ASC – Communities, Health and Adult Social Care*

*CSC & L – Children Social Care and Learning*

*TEE – Transport, Environment and Economy*

The audits relating to Families First; ADEPT Accounts; Joint Waste Committee and DEFRA Grant are all verification audits, checking the accuracy and completeness of grant claims and statement of accounts. There were no significant issues arising from these audits. A summary of the completed audits is attached as appendix 2 to this report.

## **Counter - Fraud**

4. There have been a number of irregularities reported to Internal Audit, under the Anti-Fraud and Corruption Strategy that have required investigation and management review. Internal Audit are either involved in the investigation, or overseeing the management activity:
5. Internal Audit received a referral from DWP relating to a potential security breach of their CIS by a member of BCC staff. The Internal Audit investigation has concluded and has been reported to management for action. The DWP have been updated on the outcome of the investigation.
6. Internal Audit is currently investigating a report of potential conflicts of interest and financial irregularity in a school following a referral from the Buckinghamshire Learning Trust.
7. The Monitoring Officer referred a whistleblowing allegation to Internal Audit for investigation within CSC&L regarding the commissioning process. The investigation is on-going.
8. Internal Audit are, in conjunction with Managers in CSC&L, still conducting an investigation into financial irregularity within a specific service area relating to contractor payments. The irregularities were identified by the manager of the service, through their internal check processes. They highlighted weaknesses in the control process which the Manager has taken immediate corrective action to address. The investigation is on-going and is now proceeding as a criminal investigation with Thames Valley Police.
9. Internal Audit are currently working with managers in CHA&SC to consider the fraud risk within the Direct Payments system, and the effectiveness of the controls to mitigate that risk. The work includes reviewing a small number of cases identified by management.

## **Business Assurance**

10. The Business Assurance Manager has been working with the One Council Board (OCB) to review and refresh the Strategic Risk Register. Individual meetings will now be held with each of the Managing Directors to update the scores and action plans ahead of reporting to the next meeting of the Risk Management Group (RMG). The Strategic Risk Register was last updated in February 2016.
11. The Chief Auditor and Business Assurance Manager have completed the exercise to collate the results from the Operating Framework compliance self assessments carried out within the Business Units. The output has been used to inform the review and update of the Operating Framework, which is being presented to One Council Board on 20 April 2016.
12. Professional Leads have been identified for each of the key corporate processes detailed within the Operating Framework, and each of the leads have now completed their end of year assurance statement outlining their key controls, risks, areas for improvement and an overall opinion on the effectiveness of the process. This provides the 2<sup>nd</sup> line of assurance to inform the Annual Governance Statement. Regular reports on the Professional Leads Assurance Frameworks will be presented to the HQ Leadership Team.

## **Risk Management**

13. The Risk Management Group met on 13 April 2016, and a separate report is being presented to the Regulatory and Audit Committee
14. The Business Assurance Team continues to work with the Business Units to embed a robust risk management process, and we have identified “Risk Champions” within each of the Business Units to strengthen the capacity to do this.
15. Key financial risks have been identified by the Finance Directors in each Business Unit and are being reported by Portfolio. The risk registers have been used to inform the Budget Scrutiny process, and will be reported to HQ Board on a quarterly basis in 2016/17.

**APPENDIX 1 Regulatory & Audit Committee 27 April 2016 - Progress against 2016/17 Plan**

Business Unit	Quarter Start	Audit	Progress as at 15 April 2016 (Bold = complete)
HQ	1	<p><b>Annual Governance Statement</b></p> <p>This work will involve collating and analysing the self-assessment Annual Governance Statement questionnaires returned from Managing Directors. This will form key evidence for the production of the Annual Governance Statement. The Chief Internal Auditor will also be liaising with the Professional Leads on the key control processes in compiling the AGS.</p>	<b>Complete</b>
HQ	2	<p><b>Governance &amp; Financial Management</b></p> <p>This audit will focus on reviewing key control processes within the AGS across HQ, specifically:</p> <ul style="list-style-type: none"> <li>- Performance Monitoring;</li> <li>- Budget Monitoring (incl. General Financial Management and Budget Setting);</li> <li>- Scheme of Financial Delegation (incl. any changes); and</li> <li>- Relationship between HQ and Bus</li> </ul>	In progress
HQ	3	<p><b>Compliance with Operating Framework</b></p> <p>The audit will review the compliance with the Council's Operating Framework, including reporting and escalation processes within the BUs and to HQ</p>	<b>Complete</b>
HQ	3	<p><b>Contract Management Application – Follow Up Audit</b></p> <p>This audit will follow up on the progress of actions raised in the 2014/15 Internal Audit Report.</p>	Complete (draft report)
HQ	4	<p><b>ICT Audits</b></p> <p>Areas to be confirmed</p>	Delayed to 16/17
BSP	3	<p><b>Financial Management</b></p> <p>The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.</p>	In progress
BSP	3	<p><b>Payroll</b></p> <p>The Payroll process from starter to leaver is managed by HR and the 'Reward' and 'Employee Lifecycle' Teams which are part of the BSP Business Unit. Payroll services are also provided by Bucks County Council to external organisations and some academy schools. The audit will review the processes for delivering payroll services to ensure that employees are paid correct amounts on a timely basis.</p>	Complete (draft report)



Business Unit	Quarter Start	Audit	Progress as at 15 April 2016 (Bold = complete)
BSP	3	<b>Pensions</b> This audit will review the Council's processes for managing the Pension Fund, as well as the processes for administering members of the scheme.	In progress
BSP	4	<b>General Ledger (incl. interfaces)</b> The audit will review the internal controls in place for managing and monitoring the Council's General Ledger, to ensure they are adequate and effective.	<b>Complete</b>
BSP	3	<b>Accounts Receivable (incl. Cash Receipting)</b> This review will focus on the effectiveness of the processes and controls adopted by the Council for administering income due and managing its debts. The audit will also include a review of the Council's cash receipting processes.	Complete (draft report)
BSP	4	<b>Accounts Payable</b> The audit will review the Council's process for raising orders and paying invoices, to ensure only authorised goods are paid for.	In progress
BSP	4	<b>Purchasing Cards</b> The audit will cover the arrangements in place for the operation of purchasing cards from April 2015 to date and will include school purchasing cards. The audit will consider any fraud risks posed.	Delayed to 16/17
BSP	3	<b>Bucks Law Plus</b> This audit will look at the governance arrangements in place and the effectiveness of key management controls within BLP.	Delayed to 16/17
TEE	3	<b>Financial Management</b> The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.	<b>Complete</b>
TEE	1	<b>Joint Waste Committee Return</b> This work is an audit of the Annual Return 2014/15 for the Buckinghamshire Joint Committee on Waste.	<b>Complete</b>
TEE	2	<b>ADEPT Accounts</b> This work is an audit of the Association of Directors of Environment, Economy, Planning & Transportation accounts, of which the Strategic Director, Communities and Built Environment, is the Honorary Secretary & Treasurer.	<b>Complete</b>

Business Unit	Quarter Start	Audit	Progress as at 15 April 2016 (Bold = complete)
TEE	3	<p><b>TfB Contract</b></p> <p>This review will focus on the contract management arrangements in place over the TfB contract, including financial management. The audit will focus specifically on the Street Lantern Replacement Scheme.</p>	In progress
TEE	4	<p><b>Bucks Local Enterprise Partnership</b></p> <p>Whilst the Bucks LEP is independent from Buckinghamshire County Council, the S151 Officer has accountability for ensuring there are adequate and effective accounting systems in place. This audit will review the financial systems and procedures, reporting to both the S151 Officer, and the Bucks LEP Board.</p>	In progress
CSC&L	1	<p><b>Client Transport – Safeguarding</b></p> <p>This audit covered the governance arrangements currently in place in relation to client transport safeguarding both under the AMEY contract and through other providers.</p>	<b>Complete</b>
CSC&L	1	<p><b>Families First Grant</b></p> <p>This work involves a review of the governance arrangements and data control processes in place in order to verify and sign off the grant claim for the government's Troubled Families results-based payments claim.</p>	<b>Complete</b>
CSC&L	2	<p><b>AMEY Contract – Follow Up</b></p> <p>The audit will follow up on the 13/14 "limited" assurance AMEY Contract audit and review progress in actioning any improvements required.</p>	<b>Complete</b>
CSC&L	2	<p><b>CYP Safeguarding – Follow Up Audit</b></p> <p>A detailed follow up audit will be undertaken to confirm the status of the management actions agreed during the 2013/14 CYP Safeguarding audit (limited assurance).</p>	<b>Complete</b>
CSC&L	2	<p><b>BLT Governance</b></p> <p>The audit will focus on the adequacy and effectiveness of the system of internal controls and governance arrangements that are in place at BCC to enable robust management of the service agreement with the BLT; including due diligence over their operations and financial management.</p>	<b>Complete</b>
CSC&L	3	<p><b>Commissioning – Residential Placements</b></p> <p>The audit was commissioned following an investigation into residential placements, and focused on confirming of the adequacy and effectiveness of the system of internal controls in place.</p> <p>The audit covered the following key areas: Selection of Residential Providers, Contracts, Ofsted Judgements, Invoice Payments and Monitoring of Residential Providers.</p>	<b>Complete</b>

Business Unit	Quarter Start	Audit	Progress as at 15 April 2016 (Bold = complete)
CSC&L	3	<p><b>Financial Management</b></p> <p>The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.</p>	Delayed to 16/17
CSC&L	3	<p><b>Schools S151 Assurance Processes</b></p> <p>The S151 Officers financial management assurance framework for Schools has been under development, with roles and responsibilities and management reporting being designed and established. This audit will review the effectiveness of the framework.</p>	In progress
CSC&L	4	<p><b>DSG</b></p> <p>The audit will review the process for allocating the Dedicated Schools Grant. This will include the approval and application of the grant formula and tracing through a sample of transactions to ensure compliance with the formula.</p>	Delay to 16/17
CSC&L	4	<p><b>Special Education Needs</b></p> <p>The audit will review the adequacy of and compliance with controls for mitigating risks in the following SEN areas: Policies, Procedures and Training; EHC Needs Assessment; Special School Admissions; SENDIST Appeals; Transfer of SEN Statements to EHC Plans; Annual Reviews of EHC Plans and Statements; and Budgetary Control</p>	Complete (draft report)
CSC&L	2 - 4	<p><b>School Audits</b></p> <p>Four school audits will be undertaken as part of the 2015/16 Internal Audit plan. Testing will focus on the adequacy and effectiveness of the system of internal control that is in place to manage and mitigate financial and non-financial risks. (NB Mandeville and Meadows Schools – Follow Up Audits)</p>	<p><b>Beechview – complete</b></p> <p><b>Hannah Ball - complete</b></p> <p><b>Mandeville - complete</b></p> <p>Elmhurst – complete (draft report)</p> <p>Meadows School – complete (draft report)</p>
CHASC	3	<p><b>Financial Management</b></p> <p>The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.</p>	Fieldwork in progress

Business Unit	Quarter Start	Audit	Progress as at 15 April 2016 (Bold = complete)
CHASC	3	<b>ASC Payments to Providers – Follow Up Audit</b> A detailed follow up audit will be undertaken to confirm the status of the management actions agreed during the 2014/15 AFW Payments to Providers audit (limited assurance).	<b>Complete</b>
CHASC	3	<b>Client Charging</b> The audit will review the system of control designed to ensure that policies, systems and procedures in relation to charging for adult social care services, are being properly applied and maintained, including financial assessments.	Delayed to Q1 16/17
CHASC	4	<b>AFW Safeguarding - Follow Up Audit</b> A further detailed follow up audit will be undertaken to confirm the status of the management actions agreed during the 2013/14 AFW Safeguarding audit (limited assurance).	Delayed to Q1 16/17
CHASC	4	<b>Direct Payments</b> The audit will review the system of control designed to ensure that policies, systems and procedures in relation to Direct Payments, are being properly applied and maintained, including assessments, client contributions and Direct Payment use.	In progress
CHASC	4	<b>Better Care Fund</b>	<b>Benchmarking exercise complete</b>
CHASC Public Health	3	<b>Financial Management</b> The audit will review the financial management arrangements in place within the newly set up business units to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.	Included in CHASC Financial Management Audit

## APPENDIX 2 Summary of completed audits

### Note for information:

We categorise our management actions according to their level of priority:

<b>High</b>	Major issue or exposure to a significant risk that requires immediate action or the attention of Senior Management.
<b>Medium</b>	Significant issue that requires prompt action and improvement by the local manager.

### GENERAL LEDGER

The General Ledger is an essential part of Buckinghamshire County Council's accounting system. Financial data recorded on the General Ledger is used to prepare the annual accounts. The audit review covered 11 integral areas and included sample testing to ensure sufficient internal controls are in place.

The audit activity focussed on the following key risk areas identified in the processes relating to the General Ledger System:

- Risk Management
- Policies and Procedures
- System Access and Data Security
- Financial Information and Reporting
- Coding Structure
- Feeder Systems
- Journals and Internal Transactions
- Suspense and Holding Accounts
- Bank Reconciliations
- Final Accounts

The overall conclusion for General Ledger is **Limited** Assurance. This is based on the adequacy of risk management techniques, the existing control framework and compliance with the existing framework. There have been eight high and 12 medium priority actions agreed with Senior BSP Managers.

The key issues identified during the audit are:

- Scheme of Delegation not approved and published (implemented since audit);

- Feeder systems (K2) – inappropriate authorisation limits, lack of exception reporting and inadequate segregation of duties;
- Feeder systems (K2) – reconciliations not reviewed and discrepancies not investigated;
- Feeder systems (K2) – interface file formats not aligned with SAP;
- Lack of supporting evidence for journals;
- Inappropriate access to critical transactions on SAP;
- Suspense and holding accounts not cleared on timely basis; and
- SystemsLink – inadequate authorisation controls and no reconciliations.

The report was presented to One Council Board in March 2016, and their response was as follows:

*The One Council Board has considered the final audit report and the service response. The report raises a series of significant issues which need to be addressed as a matter of priority. We support the management actions raised and monitoring of implementation of the actions will be reported to Regulatory and Audit Committee through the Internal Audit Action Tracker.*

## **TEE FINANCIAL MANAGEMENT**

The TEE Business Unit was formed as part of Council's Future Shape programme in early 2015; as such the Business Unit has not been subject to a previous Financial Management audit. The audit reviewed the financial management arrangements in place within the newly set up TEE business unit to ensure that systems and processes are in place which are compliant with agreed Council policies and support the delivery of the business unit's objectives.

The audit activity focussed on the following key risk areas identified in the financial processes within TEE Business Unit:

- **Financial Management** – SAP structures, SAP feeder systems, local finance systems, budget setting, budget monitoring, staff costs, journals and scheme of delegation.
- **Income** – Scale of charges, cash receipting, payment cards, online payments, refunds, VAT and debt management.
- **Payments** – Purchase to pay, procurement cards, imprest accounts, vendor set up, VAT, link to contracts, Contract Management Application.
- **Grants** – income and payments, compliance with grant conditions.

The TEE Financial Management audit has an overall opinion of **Reasonable** assurance. There have been three high and six medium priority actions agreed with Senior BSP Managers.

The main areas of weakness were identified as:

- Capital scheme of delegation had not been updated;
- Suspense and holding accounts not cleared on a timely basis; and
- Lack of debt recovery action.

There were several areas where testing demonstrated that the Business Unit had good controls in place such as risk management, budget monitoring, accounts payable and grant compliance.

## **CSC&L COMMISSIONING – RESIDENTIAL PLACEMENTS**

Following receipt of whistleblowing allegations received in relation to residential placements made by Buckinghamshire County Council (BCC) in Bedfordshire, Internal Audit performed an independent investigation of the processes followed for making out of county residential placements.

Whilst the investigation sought to address the allegations raised, our approach included a review of the adequacy and effectiveness of the system of internal controls that are in place to manage and mitigate financial and non-financial risks of the system in the following areas:

- Selection of Residential Placement Providers;
- Contracts;
- Ofsted Judgements;
- Invoice Payments; and
- Monitoring of Residential Providers.

The Commissioning – Residential Placements audit provided a **Limited** level of assurance. This is because there were several audit areas where we were unable to determine the adequacy of controls in place. Seven high priority and one medium priority management actions were raised.

*The One Council Board has considered the final audit report and the service response. The report raises some very significant issues which need to be addressed as a matter of priority, and we are reassured of the action taken to date.*

*We support the management actions raised and monitoring of implementation of the actions will be reported to CSC&L Board and Regulatory and Audit Committee through the Internal Audit Action Tracker.*