

Local Members Interest	
N/A	N/A

Audit and Standards Committee – 30th July 2020

Internal Audit Outturn Report 2019/20

Recommendation

1. To receive the outturn report containing the annual internal audit opinion for 2019/20.

Report of the County Treasurer

Background

2. This report outlines the work undertaken by Internal Audit in respect of the 2019/20 annual plan.
3. Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements, i.e. the control environment of the organisation. Internal Audit acts as an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
4. Internal Audit is required by professional standards, i.e. UK Public Sector Internal Audit Standards (PSIAS), to deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. In accordance with these requirements the Head of Internal Audit must provide an annual opinion that covers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must incorporate:
 - a. The opinion;
 - b. A summary of the work that supports the opinion; and
 - c. A statement on conformance with PSIAS and the Local Government Application Note (LGAN), highlighting any areas of non-conformance.
5. The underlying principles to the 2019/20 plan were outlined in the Internal Audit Strategy and Plan paper presented to and approved by Members of the Audit & Standards Committee on 12 June 2019. Since the original plan was approved, a number of additional audits have been required, whilst some planned reviews were no longer needed and several deferred due to operational requirements. However, the net effect is that the key performance target has been achieved. Work is scheduled to meet the requirements of the business area to ensure the greatest benefit is achieved from the audit work. Therefore, it is not uncommon for reports to be at draft report stage at the end of the audit year. In respect of this point, due to the COVID -19 outbreak and staff availability to finalise draft reports, there were a greater number of reports still at

¹ Public Sector Internal Audit Standards definition of Internal Auditing.

draft report stage as at the end of March/April 2020. However, the Internal Audit Team have continued to proactively seek management responses to all outstanding draft reports and the majority of audit reports have now been received.

6. Each control tested as part of an individual audit is evaluated for its adequacy. The table below demonstrates the number of controls that have been evaluated as part of the 2019/20 Internal Audit Plan for systems audits:

Controls Evaluated	1,043
Adequate Controls	610
Partial Controls	278
Weak Controls	155

7. Audit opinions are awarded for individual systems and compliance audits within one of the following categories listed below. Further information as to how these are determined is given in **Appendix 1**.

- a. Substantial Assurance
- b. Adequate Assurance
- c. Limited Assurance

8. Paragraph 9 provides a high-level summary of the work undertaken by the Section analysed by the following categories:

- a. High Risk Auditable Areas
- b. Main Financial Systems
- c. Systems Audits (reported by exception, i.e. only those with “Limited Assurance” and/or those with a High-Level Recommendation)
- d. Compliance Reviews
- e. Financial Management in Maintained Schools including payroll arrangements
- f. Special Investigations/Fraud & Corruption Related Work.

9. For those areas awarded ‘Limited Assurance’, action plans have been or are in the process of being agreed with the relevant Director /Head of Service. During 2019/20, Members of the Audit & Standards Committee have continued to receive full copies of all “Limited Assurance”, High Risk Auditable areas (regardless of opinion) and Major Special Investigation reports (i.e. greater than £10,000 financial loss/Significant Corruption issues) once finalised. Relevant managers have attended the Committee to provide assurance that appropriate action has been taken regarding the implementation of recommendations. Internal Audit will continue to track and report on the implementation of High-Level recommendations, including those contained within reports awarded “Adequate Assurance”.

2019/20 Audit Plan Outcomes

High Risk Auditable Areas

10. Our Internal Audit and Strategy and Plan Paper identified the top risk audits/reviews for the County Council in 2019/20. These reviews acknowledged the key risk areas and financial pressures within the Council with its continued work on transformation services such as: Children and Families Systems, Special Education Needs and Disabilities (SEND), Adults and Children’s Financial Services, the Care Commissioning Programme, the People Strategy and the Digital Development Programme; as well as

other corporate services such as: Strategic Property, Cyber Security arrangements and Sales to Cash including debt recovery.

11. The audit opinions for all the high-risk reviews are summarised in the table below:

System Area	2019/20 Opinion	2019/20 Consultancy
Sales 2 Cash Including Debt Recovery Function & Debt Management (<i>also included as a main financial system</i>)	Adequate Assurance	
Adult & Children's Financial Services Review Programme	-	✓ Project advisory work
Strategic Property Asset Management and Governance	Limited Assurance	
Digital Development Programme	Position Statement	
People Strategy	Adequate Assurance	
Children & Families System Transformation: Place Based Approach	Adequate Assurance	
Special Education Needs and Disability (SEND) Joint Inspection - First Stage	Adequate Assurance	
Special Education Needs and Disability (SEND) Joint Inspection - Second Stage	Limited Assurance	
SEND Transformation - High Needs Block	Cancelled - Deferred to 2020/21	
SEND Transformation - Governance - Local Hubs	Adequate Assurance	
SEND Transformation - Governance - Decision Making Groups	Limited Assurance	
Ofsted Improvement Plan (Children's Social Care Services)	Adequate Assurance	
** Care Commissioning Programme	Draft Report with Management (Adequate Assurance)	
Adult Social Care Pathway	Cancelled - Deferred to 2020/21	
Office 365 Project- Governance	Adequate Assurance	
Office 365 Project	-	✓ Project advisory work
Care Director - Citizen Portal	Adequate Assurance	
Cyber Security Strategy	Adequate Assurance	
** Financial Assessments including Disability Related Expenditure	Draft Report with Management (Limited Assurance)	

** Currently at draft report stage, therefore the high-level recommendations have not been included in this section of the Outturn report. Once finalised the completed report will be circulated to Members of the Audit & Standards Committee.

12. The four Limited Assurance reports issued for the high-risk systems areas in 2019/20, relate to; Strategic Property Asset Management and Governance, SEND Joint Inspection - Second Stage, SEND Transformation Governance - Decision Making Groups and Financial Assessments including Disability Related Expenditure (draft report). As a result of these 2019/20 reviews a number of significant weaknesses have been highlighted. The high-level issues arising from these reviews are shown in the table below, for those areas where the audit report has been finalised:

System Area	Areas for Improvement
Strategic Property Asset Management and Governance	<ul style="list-style-type: none"> • Property Governance: A County Farms Panel Decision was made for the sale of a parcel of farmland and its subsequent approval was not made in accordance with the revised decision-making structure for property matters which came into effect in December 2017. • Property Governance: Historically, the detail of the Schools Capital Programme has been approved by the Cabinet Member for Learning and Employability which is contrary to the revised decision-making structure which came into effect in December 2017. In addition, the correct Cabinet Member delegated decision form had not been completed and the decision had not been subsequently published. • Asset Management Framework: The Council's Property Strategy which was approved recently by Cabinet on 16th October 2019 is not aligned to guidance contained in CIPFA's Strategic Property Asset Management Framework guidance document (August 2018). A review of the Property Strategy found that it is deficient in a number of areas and lacks clarity in a number of areas. In addition, it is not clear how the Council's property strategy fits in to the Council's other strategies and there is no reference to managing property risks or details of the property performance management framework. The Property Sub Committee did not review the Council's Property Strategy prior to its presentation at Cabinet on 16th October 2019 despite this aspect being a key purpose/responsibility of the Sub Committee. In addition, there is no timeframe for review and refresh of this strategy document. • Delivery Mechanisms: The Strategic Property Team restructure that had commenced during the previous audit review in December 2016 has been subject to delay over the last three years and remains outstanding. • Delivery Mechanisms – Lease Management: Significant control issues were identified in relation to the Council's current lease management arrangements that need to be resolved as a matter of urgency • Value for Money including Cost Effective Procurement: Currently, the MTFs property rationalisation programme does not have a clear and defined governance framework, i.e. there is an absence of terms of references for the governance groups involved in the MTFs rationalisation programme; the absence of agendas, minutes and action logs and no evidence to demonstrate how programme risks are monitored and reported. • Performance Management: A performance management framework is not in place currently to measure the successful implementation of the Council's Property Strategy, the general performance of the Strategic Property Team or periodically to determine the direction of travel for the Council's estate.
SEND Joint Inspection - Second Stage	<ul style="list-style-type: none"> • Written Statement of Action (WSOA) Progress and Implementation: The Department for Education (DfE) has identified key areas of concern relating to the delivery of outcomes and the lack of progress in implementing the WSOA and in particular the rollout of the SEND District Model. Internal Audit's review identified a number of areas which have or could result in the failure to achieve the required deadlines. The areas include; the lack of a multi-agency working protocol, actions which lack clarity, the effectiveness of the EHCP subgroup, the lack of identifiable outcomes and measures of success, the transition of actions through to business as usual, the need to accelerate the roll out of the SEND District Model and the lack of any formal risk monitoring. • Evidence Bank: Robust arrangements are not in place to ensure the evidence bank is updated, complete and accurate.

SEND Transformation Governance - Decision Making Groups (DMGs)	<ul style="list-style-type: none"> • Schemes of Delegation: Decision making processes are not aligned to the current Families and Communities Sub-Scheme of Delegation. All applicable decisions sampled were not taken in accordance with the Children and Families Sub-Scheme of Delegation. • Procurement Regulations: Decision making processes are not aligned to the current Procurement Regulations. All applicable decisions sampled were not in-line with Procurement Regulations. A variation to Procurement Regulations has been drafted however at the time of the audit, this had not been approved and did not extend to decisions made by Locality DMGs.
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13. In addition, for those reports relating to high risk auditable areas, with an opinion of at least “Adequate”, five high level recommendations were made as follows:

System Area	Areas for Improvement
People Strategy	<ul style="list-style-type: none"> • The implementation of the People Strategy year 1 priorities will not be met.
Children & Families System Transformation: Place Based Approach	<ul style="list-style-type: none"> • Strategy, Themes & Intelligence: Priorities set by each District are not SMART (specific, measurable, achievable, realistic and timely) and strategies in place to address these priorities are not supported by quantifiable Key Performance Indicators (KPI's) or linked adequately to Countywide data.
Office 365 Project-Governance	<ul style="list-style-type: none"> • Budget Monitoring: Project costs and resources are not being reported to and monitored by Project Board.
Care Director - Citizen Portal	<ul style="list-style-type: none"> • Citizen Portal: The portal does not safeguard against the upload of viruses. In addition to this, a number of other security vulnerabilities were identified as part of a third-party penetration test.

14. The top risk audit reviews relating to: Sales 2 Cash audit review which includes the Debt Recovery Function and Debt Management; People Strategy; Children & Families System Transformation: Place Based Approach; SEND Joint Inspection - Second Stage; SEND Transformation - Governance - Local Hubs; SEND Transformation - Governance - Decision Making Groups; Ofsted Improvement Plan; Cyber Security Strategy and the Care Director – Citizen Portal are contained in the confidential agenda and will be discussed in detail when the Committee reaches this part of the agenda. The remaining top risk reviews which have not been previously presented to the Audit and Standards Committee will be distributed to Members of the Committee as part of the next Committee meeting Confidential Agenda Pack for further consideration.

Main Financial Systems

15. Coverage of these areas is in line with the audit strategy.

Main Financial System	2016/17 Opinion	2017/18 Opinion	2018/19 Opinion	2019/20 Opinion	Direction of Travel
Liberata Payroll System	N/A in 2016/17 (was previously HRSSC)	Limited Assurance	Adequate Assurance	Adequate Assurance	→
Pensions Payroll	Adequate Assurance	Adequate Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Custodian, Investment	Substantial Assurance	Substantial Assurance	Not Covered in 2018/19	Not Covered in 2019/20	→

Main Financial System	2016/17 Opinion	2017/18 Opinion	2018/19 Opinion	2019/20 Opinion	Direction of Travel
Managers and Pensions Property					
Pensions Fund – Local Government Pension Scheme (LGPS): Asset Pooling – Governance & Financial Reporting Arrangements	N/A in 2016/17	N/A in 2017/18	Project Advisory Work in 2018/19	Adequate Assurance	→
Pension Fund – Pension Administration	Adequate Assurance	Adequate Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Governance (SCC Local Governance)	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Procure to Pay	Adequate Assurance	Adequate Assurance	Not covered in 2018/19	Substantial Assurance	→
Sales to Cash including Debt Recovery Function & Debt Management	Limited Assurance	Limited Assurance	Limited Assurance	Adequate Assurance	↑
E- Payments	Not covered in 2016/17	Substantial Assurance	Substantial Assurance	Not Covered in 2019/20	→
Cheque Control	Not covered in 2016/17	Not covered in 2017/18	Substantial Assurance	Not Covered in 2019/20	→
Nominal Ledger Including Bank	Project work	Bank Reconciliation Adequate Assurance	Substantial Assurance	Not Covered in 2019/20	→
Treasury Management & Lloyds Link	Not covered in 2016/17	Not covered in 2017/18	Substantial Assurance	Not Covered in 2019/20	→
Value Added Tax (VAT)	Not covered in 2016/17	Not covered in 2017/18	Substantial Assurance	Not Covered in 2019/20	→

16. It is pleasing to note that there have been no Limited Assurance reports issued for the main financial systems areas in 2019/20. In addition, for those main financial system reports with an opinion of at least “Adequate”, no high-level recommendations have been made.
17. Systems Audits – (reported by exception, i.e. only those with Limited Assurance and/or those with a high-level recommendation).

System Area	2019/20 Provisional Opinion Awarded
Corporate Governance Schemes of Delegation	Draft Report - Limited Assurance
Use and Payment of Settlement Agreements	Draft Report - Limited Assurance
Joint Funding & Billing (CCGs/CHC)	Draft Report - Limited Assurance

The above reviews are at draft report stage and therefore, the high-level recommendations have not been included within this section of the Outturn report. Once finalised, the completed report will be circulated to Members of the Audit & Standards Committee.

18. Please note that the limited assurance reviews not previously reported to the Audit & Standards Committee will be distributed to Members of the Committee as part of the July Committee meeting Confidential Agenda Pack for further consideration.

19. The following table lists those systems audits where high-level recommendations have been made to address control weaknesses within Adequate Assurance reports:

System Area	Areas for Improvement
Family Health & Wellbeing	<ul style="list-style-type: none"> • Contractual Arrangements: The specifics of service delivery, and target KPIs, are not detailed in the contract and the contract variations are unsigned.
Children's Services – Health Assessments	<ul style="list-style-type: none"> • Management Reports: Reporting does not include detail on whether the health assessments are incorporated effectively into the care plans of looked after children. Testing suggests this is not always the case.
First Contact - Screening Assessments - As is procedures	<ul style="list-style-type: none"> • Allocation of referrals: Internal Audit tested the timeliness of the allocation and completion of referrals by Staffordshire Cares and First Contact and identified examples where both high priority and standard referrals were not being allocated correctly or completed within the required timescales as stipulated within the First Contact standards.
BACS Security	<ul style="list-style-type: none"> • Experian Security: NTFS permissions on the Experian Payment Gateway grants full control to every authenticated network user.
Exchange Server Security	<ul style="list-style-type: none"> • Backup & Recovery: Deleted emails are only held for 14 days and this will not allow Information Governance to retrieve older mailboxes for legal purposes.
ABS (IRIS) Coroners systems	<ul style="list-style-type: none"> • Supplier Management: There was only light touch support provided by SICT and the IGU to the Coroners team who in turn placed too much reliance on the system supplier to manage the implementation of the Coroners system and enforce suitable security mechanisms.

Note: There can be a maximum of one high level recommendation contained in a report awarded adequate assurance.

20. Complying with the Data Protection Act 2018 which incorporates the General Data Protection Regulation 2018 (GDPR), is an ongoing responsibility. However, it is important that Internal Audit provides ongoing assurance to management in this area as part of its planned systems audit work across the Council. In 2019/20, for all applicable audits i.e. where the auditable area being reviewed processes personal data, a GDPR checklist was completed to identify GDPR compliance issues that may be required to be reported.

21. In 2019/20, a GDPR checklist was completed for 28 system audit reviews. Of these, compliance issues were noted in 19 reviews resulting in four medium and 16 low-level recommendations/minor points being made. The adequacy of privacy notices; the completion of Data Protection Impact Assessment for third parties; data retention and training were common themes arising from these reviews. The recommendations made will continue to be monitored until implemented along with all the other agreed recommendations made as part of the individual audit reviews.

Compliance Reviews

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Compliance - Adults				
Comforts Funds*	12	0	0	12
Other Compliance				
Educational Endowment Funds*	3	0	0	3
Families First District Offices	0	2	0	2
Compliance Reviews	15 (88%)	2 (12%)	0 (0%)	17

*These reviews related to the audit of accounts and no issues were identified.

22. The review of the two Families First District Offices highlighted the following key areas of weakness:
- The cash holding insurance limit of the Office safe (£1,000) was exceeded on 21 separate days over the period 1st October 2019 to 6th December 2019.
 - An inventory record was not maintained contrary to the provisions of Financial Regulation H17.
 - Purchase card supporting documentation was not being completed, retained or signed as required by both local procedures and the Purchase Card Manual.

Financial Management in Maintained Schools

23. Schools Payroll - For the year 2019/20, payroll services to schools have been provided by several providers. As a result, Internal Audit has continued to undertake a themed audit review of payroll services to provide assurance on the internal control environment operating in schools for this area. To ensure efficiency of operation, the payroll themed review was undertaken at the same time that the compliance review was completed at the school, hence only one opinion has been given covering all systems at the school. The detail from the themed audit reviews on payroll is provided at section 9.5.3 below.

Schools Compliance

24. Our Schools' Compliance Programme for the year ahead is based upon a formal risk assessment methodology which considers; the time since last audit, the previous audit opinion, delegated budget value, whether there is a licensed deficit in place, if the school has community facilities, the last Ofsted rating and submission of the Schools Financial Value Standard (SFVS) return.

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
Schools Compliance – High Schools*	0	2	0	2
Schools Compliance – All other schools*	0	13	3	16
Schools Compliance – Short Stay Schools (PRUs)	0	1	0	1
TOTAL	0 (0%)	16 (84.2%)	3 (15.8%)	19

**NB Payroll themed reviews - no separate opinion has been given as all incorporated into the one opinion for the school as highlighted at 9.5.1*

25. From the table above, three primary schools were awarded a limited assurance opinion in 2019/20. In all three cases, issues were found relating to school governance; independent oversight of the school fund account; the proper accounting and banking of income; compliance with Schools Procurement Regulations; purchase card use; the proper maintenance of records relating to payroll transactions including authorisations for appointments, terminations and variations; the proper authorisation of the payroll; and the appropriateness of validation checks undertaken.
26. Generally, the compliance and payroll themed reviews identified non-compliance with key controls in the following areas:

Schools – General Compliance

Governance

- a. Scheme of Delegation requires amendment/approval. *(16 schools)*
- b. There are no terms of reference/ roles and responsibilities for the Full Governing Body or Committees as required by statutory guidance. *(2 schools)*
- c. Governing Body Agendas and minutes not held by the school or do not cover all items and are not clerked appropriately in accordance with School Governance Regulations. *(3 schools)*
- d. Budgets have not been set, approved or reviewed in accordance with the Scheme of Delegation and Financial Regulations including budget deficit strategies. *(6 schools)*
- e. Policies not approved in accordance with the Scheme of Delegation. *(6 schools)*
- f. Remissions and Charges Policy does not contain detail of actual charges. *(2 schools)*
- g. No/out of date debt management policy which does not cover all areas of income. *(8 schools)*
- h. Financial reports are not submitted to the Committee responsible for Governance of School Finances or reports are inadequate. *(3 schools)*
- i. The School Fund is not audited and approved in accordance with requirements of Financial Regulations. *(11 schools)*
- j. Pecuniary interest register is not up to date or held/published in accordance with guidance. *(7 schools)*
- k. Leases are not in the name of the school, not signed in accordance with Scheme of Delegation /or copies not held by the school. *(1 school)*

Income

- a. Income is not banked promptly and/or intact, including grant income banked inappropriately to School Fund account. *(10 schools)*
- b. Key(s) to safe is/are not held securely or in accordance with the Scheme of Delegation. *(2 schools)*
- c. Income is not recorded or receipted in accordance with Financial Regulations, including a clear audit trail. *(13 schools)*
- d. There is a lack of separation of duties or independent check in the income and banking process. *(13 schools)*
- e. Cash is not held securely and/or may not be held in accordance with SCC Insurers cash holding limits, including third party monies. *(5 schools)*
- f. Lettings are not administered appropriately, including VAT and evidence of public liability insurance. *(13 schools)*
- g. Lettings charges are not made in accordance with policy or reviewed and approved

- annually. *(9 schools)*
- h. Invoices have not been raised in the finance system or unofficial invoices have been raised. *(4 schools)*
 - i. No independent reconciliation or review of Parent Pay postings. *(2 schools)*
 - j. Aged Debtor Accounts are not monitored effectively; outstanding payments are not pursued by the School. *(7 schools)*
 - k. Unofficial Petty Cash system in place. *(1 school)*
 - l. Income and expenditure of extended School Provisions (below the line accounts) are not coded to the correct cost centres. *(2 schools)*

Procurement

- a. No financial limits set for declared pecuniary interest in companies. *(4 schools)*
- b. Procurement/purchase card transactions not in accordance with Scheme of Delegation and Procurement Regulations, including contractors without appropriate insurance or cancellation of recurring payments when not needed. *(8 schools)*
- c. Purchase card is not held/ used in accordance with the Purchase Card Manual/ Financial Regulations. *(5 schools)*
- d. Incorrect accounting for VAT. *(4 schools)*
- e. Purchase orders are not raised to support procurements in accordance with Financial Regulations. *(15 schools)*

Expenditure

- a. Expenditure incurred without adequate approval/review in accordance with the Scheme of Delegation. *(7 schools)*
- b. Lack of supporting documentation to evidence expenditure incurred. *(4 schools)*

Inventory

- a. Inventory records are incomplete and are not retained/maintained in accordance with Financial Regulations. *(1 school)*
- b. Hard drives that may contain personal data not destroyed prior to sale of IT equipment. *(1 school)*

Schools – Payroll Themed Audit

- a. Authorisations for appointments, terminations and variations could not be evidenced, is not consistent and/or retained on personnel files. *(9 schools)*
- b. Additional hours claim forms not signed by employee and/or not authorised in accordance with the Scheme of Delegation. *(9 schools)*
- c. Validation checks and agreement/authorisation of the payroll is not evidenced. *(17 schools)*
- d. Service level agreement for current year to confirm services to be provided/costs not received. *(2 school)*
- e. Contract for provision of payroll services not authorised in accordance with Scheme of Delegation. *(2 schools)*
- f. Procedures not in place to ensure the prompt receipt of contracts of employment. *(2 schools)*
- g. Pre-recruitment checks could not be verified. *(1 school)*
- h. Mileage and expense claims not reviewed, authorised in accordance with Scheme of Delegation or supported by receipts. *(2 schools)*
- i. Salary over/underpayments identified but not queried with provider. *(1 school)*
- j. Insufficient advertisement of new post both internally and externally. *(1 school)*

- k. Member of staff being paid at an incorrect grade of pay. (1 school)

Special Investigations/Fraud & Corruption Related Work

27. A summary of work undertaken in relation to fraud and corruption and specific counter fraud testing is attached as **Appendix 2** in the confidential part of the agenda. Overall, the counter fraud and corruption work carried out in 2019/20 indicated that there are some lapses in the application of controls leading to an increase in the risk of fraud. The table below summarises those exercises and investigations which involved confirmed financial losses. Reports have been issued to ensure that the control weaknesses have been addressed and re-occurrence prevented.

Area	Financial Value £	Control Objective
Internal Special Investigations of Fraud	91,611	This figure includes suspected loss from 2019/20 ongoing investigations.
National Fraud Initiative (NFI)* (all losses are subject to final validation & recovery action)	54,237	Payments to Care Homes for Deceased Residents - £54,000 was reported as part of the 2018/19 outturn report so excluded from this year's figures.
Total	145,848	

**NFI = National Fraud Initiative. This is a national exercise undertaken biennially which is currently administered by the Cabinet Office. Data submitted by the Council is cross checked against other public sector organisations' data highlighting potential areas of fraud/error. These are then investigated locally. Detailed reports are reported regularly to Members of the Audit & Standards Committee highlighting the results of this work.*

28. The quantity of concerns referred to Internal Audit is comparable with the previous year with a slight increase of three, during the year to 30. Potentially, this is due to our continued anonymous methods of reporting fraud available (such as the online reporting form). The actual loss related to referrals has increased from £23,085 in 2018/19 to £91,611 in 2019/20. This value is not seen to be material for 2019/20.
29. Towards the end of 2019/20, the Internal Audit Service was also asked to support the Council's response to the COVID 19 pandemic. Initially, our work focused on the production of a corporate briefing note to raise fraud awareness and to reduce the risk of fraud during the pandemic, which was disseminated across the Council to all staff. Following this, a generic fraud risk assessment relating to COVID 19 fraud risks along with a specific fraud risk assessment relating to the Council's food distribution hubs were also produced for use by the Incident Management Team. Both fraud risk assessments are being used by the Internal Audit management team to map both Internal Audit and Counter Fraud resources to those areas more susceptible to fraud during the COVID 19 pandemic as well as being used to inform the team's continuous controls monitoring programme of work. In addition to this, Internal Audit resources has been used to provide assurance over the arrangements for the procurement of Personal Protective Equipment (PPE); the recruitment of volunteers; and the payment of volunteers' expenses.
30. It is prudent to highlight to members of the Committee that during the early part of 2020/21, two serious frauds have been detected. It is highly likely that both incidents will have a negative impact on next year's overall opinion of the control environment. The Council has referred both matters to the Police and is actively pursuing appropriate recovery of losses through insurance cover arrangements.

31. In order to evaluate the effect this element of Internal Audit work has upon the wider control environment, a threshold of £300,000 financial loss per annum has been set. When this level is exceeded it is considered to have a material effect on the control environment. This year's level of actual financial loss does not indicate detected fraud is a significant problem to the Council.
32. It should be noted that the figures below include error and losses identified during the NFI 2018 exercise. As outlined in Appendix 2, these losses include both fraud and error, much of which we expect to be recovered. Of the £145,848 identified as losses from fraud and error in 2019/20, £91,611 relates to suspected fraud against the Council, the remainder (£54,237 NFI) being errors identified during the NFI 2018 exercise. The table below shows the trend of actual financial loss due to fraud and error over the past five years:

Year	Financial Value	Direction of Travel
2015/16	£73,115	↓
2016/17	£56,690	↓
2017/18	£105,232	↑
2018/19	£77,085	↓
2019/20	£145,848	↑

33. The special investigations category consists of two elements: firstly, the financial loss incurred, and secondly an evaluation of the control environment based on the counter fraud and corruption work outlined as a separate item on the agenda. Proposed percentage allocations are as follows:

Special Investigations		Fraud and Corruption Work	
£0 – below £50,000 loss	50%	Procurement /Contract arrangements	10%
£50,000 - £150,000 loss	40%	Physical Cash/Asset management arrangements	10%
£150,000 - £200,000 loss	30%	Payment mechanisms	10%
£200,000 - £300,000 loss	20%	Payroll /Expenses	10%
Above £300,000 loss	10%	Income	10%

34. Based on the above criteria the overall score awarded for this category is **90%** (i.e.40% for the special investigations elements as the actual financial loss incurred is between £50,000 - £150,000. 50% has been awarded for the fraud and corruption elements based on the details outlined in the report contained in the confidential agenda).

Overall Opinion on the Control Environment

35. Following discussion at the Audit & Standards Committee at its meeting on 30 July 2012, it was agreed to endorse the methodology outlined below, which was used as the basis to form the annual assessment of the overall internal control environment. It is not proposed to amend this method for the 2019/20 assessment.

Current Methodology

36. Each separate category of audit work is assessed against a benchmark of achieving a score of at least 90% of the total number of audits performed being awarded an opinion of “Adequate or above” within each category. For a reason of simplicity, each category attracts equal weighting and a simple pass / fail assessment is used to differentiate the overall opinion between “Substantial, Adequate and Limited” as illustrated below:

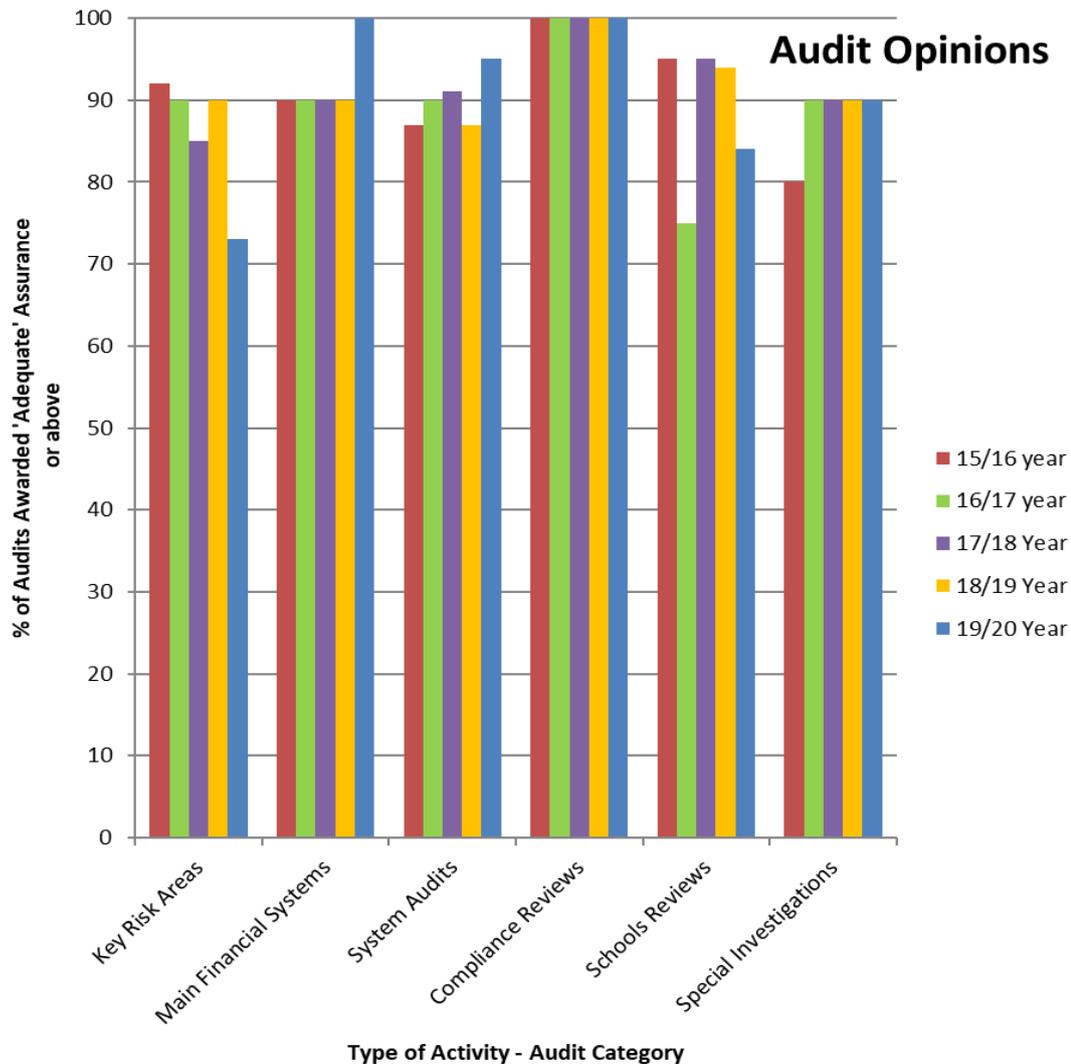
Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	6 out of the 6 categories
Adequate Assurance	4 or 5 out of the 6 categories
Limited Assurance	3 and below out of the 6 categories

Implications

37. The following table details the calculation of the 2019/20 overall assessment:

Audit Category	% awarded an opinion of at least “adequate”	Pass/Fail
Key Risk Areas (<i>paragraph 9.1</i>)	73%	Fail
Main Financial Systems (<i>paragraph 9.2</i>)	100%	Pass
System Audits (<i>paragraph 9.3</i>)	95%	Pass
Compliance Reviews (<i>paragraph 9.4</i>)	100%	Pass
Financial Management in Schools (<i>paragraph 9.5</i>)	84%	Fail
Special Investigations/Fraud & Corruption Related Work (<i>Paragraph 9.6</i>)	90%	Pass
Overall Total		4 out of 6 categories passed

38. The chart below details the audit opinions given to the key audit categories and provides a comparison with those awarded over the last five years, 2015/16 to 2019/20:



39. Based on the above, an “**Adequate Assurance**” opinion has been given on the overall adequacy and effectiveness of the organisation’s governance, risk and control framework, i.e. the control environment in 2019/20. This year’s audit plan has been dominated with audit activities which support not only the Children and Families System Transformation and Special Education Needs and Disabilities (SEND) but also the Council’s digital transformation programme, Adults and the Children’s Financial Services Transformation Programme and the Care Commissioning Programme. Internal Audit has continued to adopt agile auditing approaches within our audit processes, that has allowed the Internal Audit Service to provide a just-in time and proactive approach to support the right projects at the right depth and focus, at the right time. This approach has been adopted specifically within our on-going project work as part of the Adults and Children’s Financial Services Transformation Programme; the Adult Social Care Digital by Design Project focusing on the development of the Web Portal and the Office 365 Project during 2019/20. Some high-level issues have been raised in 2019/20 within these areas and the Internal Audit Service will continue to support the design and implementation of a robust control environment in 2020/21.

40. In quarter three of 2019/20, Internal Audit revisited the Council’s new property governance structure including the new framework for decision making following the limited assurance opinion awarded in December 2016. Our final audit report was reported to the Audit & Standards Committee in full at its December 2019 meeting and although a limited assurance opinion was again awarded, the internal audit review

confirmed that significant improvements had been made, most notably the introduction of a revised decision-making structure for property-related matters and the establishment of a Property Sub Committee of Cabinet to tighten up the property governance arrangements in place. Further time is included in the 2020/21 Internal Audit Plan to give on-going assurance in this area.

41. Several audit reviews have also been carried out within SEND in-year focusing on progress made in implementing the written statement of actions (two reviews carried out); and two audits relating to SEND governance; one reviewing the governance structure and management oversight in place for the SEND District Inclusion Model and the other reviewing the local decision making groups operating at both county and district levels. Some high-level issues have been raised within these reviews and their implementation will be monitored during 2020/21. SEND will continue to be a key focus for the 2020/21 Internal Audit Plan.
42. Following the successful launch of My HR and My Finance back in September 2017 and November 2017 respectively, the Internal Audit Service has continued to support Accountancy in relation to both systems. In 2019/20, our ICT audit work in this area has focused on the development, testing and implementation of the BACS secure file transfer process and the upgrade of My Finance, both of which received a positive assurance opinion. All agreed recommendations relating to My HR and My Finance have continued to be monitored in year along with all the other agreed recommendations made as part of the suite of financial systems audit work carried out in 2019/20.
43. The payroll control environment for the Council's core payroll has continue to improve and again in 2019/20, the payroll system has been awarded an adequate assurance opinion, with no high level issues raised and fewer audit recommendations made overall (A total of 11 recommendations have been made in 2019/20 compared with 13 recommendations in 2018/19 and 16 recommendations in 2017/18 highlighting a positive direction of travel). However, this year the Schools' compliance element of the assessment has not achieved the benchmark with limited assurance opinions being awarded for three school establishments. Also, control weaknesses relating to payroll processes operating at schools have continued to be identified in 2019/20 and it is worth noting that more control weaknesses have been identified this year when compared to last year.
44. The main financial systems element of the assessment has achieved the benchmark with all areas audited in this category being awarded a positive assurance opinion i.e. adequate or substantial assurance. Three other system audit reviews in 2019/20 have identified high level issues which have resulted in these reviews being awarded limited assurance opinions. For one of these reviews, a number of concerns have been raised relating to the use and payment of settlement agreements. The nature of this review along with the other two that are at draft report stage (namely Corporate Governance - Scheme of Delegation; and Joint Funding and Billing (CCGs/CHC) are currently being considered by management. Where appropriate, details will be incorporated into the Annual Governance Statement for 2019/20.
45. It is noted that the overall number of limited assurance opinions being awarded across all categories of our work continues to remain fairly static with 10 limited assurance opinions awarded in 2019/20 compared with 11 in 2018/19 and 12 in 2017/18. An analysis of the high-level control issues arising from these reviews indicates that improvements to governance arrangements are required for some areas of business operation as well as high-level control issues noted relating to officer non-compliance

with agreed policy, best practice and procedures. The non-completion of key tasks and the failure to complete tasks consistently and correctly along with poor record keeping and a lack of management checks were common themes arising from these reviews. One reason for this may be due to issues of capacity within the Council to undertake key activities. The issue of capacity has been identified in previous years as a potential concern also. With the impact of the COVID 19 pandemic affecting the whole of the Council at the end of 2019/20 and continuing into the new financial year, capacity may continue to be an area of concern over the next 12 months. It is important that the key actions identified in these audits are addressed, implemented as agreed and progress monitored to ensure that the necessary steps have been taken to strengthen the control environment. This will continue to be a key focus for the 2020/21 Internal Audit Plan.

Performance Measures

46. Key performance indicators (KPI) for the Internal Audit Service are detailed below. The Service has met its key performance target of more than 90% of reports being issued to draft report stage for both systems and compliance audits during 2019/20. The Service continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Reports issued to draft report stage:					
➤ Systems Audits	90	91	92	96	92
➤ Compliance Audits	90	100	95	92	90
➤					
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:	90	100	100	100	100
➤ System Audits	90	100	100	100	100
➤ Compliance Audits					

Performance against the UK Public Sector Internal Audit Standards (PSIAS)

47. The UK PSIAS came into force on 1 April 2013 with the aim of promoting further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. These have been updated periodically since (last updated April 2017). A Local Government Application Note (LGAN) has also been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide further explanation and practical guidance on how to apply the standards. The LGAN is also updated periodically (last updated March 2019).
48. The Internal Audit Service works to an Audit Charter approved regularly by the Audit & Standards Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way in which it interfaces with the Council. A detailed paper outlining how the Service meets the specific requirements of PSIAS & LGAN was presented to the Committee in June 2014 and since this date, internal self-assessments have been undertaken. In January 2018, the Service procured its inaugural external quality assessment (which is required to be conducted once every five years) by CIPFA and the highest category level was awarded regarding compliance with the PSIAS and LGAN. One recommendation was made together with three suggestions for improvement and the full assessment was reported to the Audit and Standards Committee in March 2018. As part of the 2018/19 Outturn Report, these improvements were reported as implemented and continue to be operating in 2019/20.

49. As part of our Internal Audit Quality Assurance and Improvement Framework (QAIP), as well as the *external quality assessment* (conducted every five years); internal assessments are also carried out, as mentioned above. These internal assessments take the following two forms:

- a. *On-going monitoring of the performance of the internal audit activity* - This is an integral part of the day to day supervision, review and measurement of the internal audit activity. On-going monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Mission of Internal Audit, Definition of Internal Auditing, Core Principles and the Code of Ethics; and
- b. *Periodic self-assessment* - On an annual basis, the Chief Internal Auditor will update the Public Sector Internal Audit Standards (PSIAS)/LGAN self-assessment checklist and review evidence to demonstrate conformance with the standards. This self-assessment also incorporates conformance with the Mission of Internal Audit, Definition of Internal Auditing, Core Principles and the Code of Ethics.

50. The results of this year’s updated self-assessment exercise against the current standards and LGAN are summarised below. It can be seen that 94% of the standards are deemed to be fully in place.

Standard			
In Place	Partially In Place	Not In Place	Not Applicable
127 (94%)	3 (2%)	4 (3%)	1 (1%)

51. For those areas of partial/non-compliance a detailed action plan has been produced, although none of these are considered to affect significantly the effectiveness of Internal Audit.

52. Four areas of non-conformance (not in place) were highlighted as part of the self-assessment which will not involve any further action being taken namely:

- a. The Chief Internal Auditor reports to the Head of Internal Audit & Adults and Children’s Financial Services. Section 151 matters are reported in all instances to the County Treasurer who reports to SLT for all Section 151 matters. Alternative reporting arrangements are detailed within the Internal Audit Charter, should the need arise.
- b. The Audit & Standards Committee does not approve the Internal Audit budget. This is the responsibility of the County Treasurer via Full Council.
- c. The Audit & Standards Committee does not approve decisions relating to the appointment and removal of the Chief Internal Auditor, this responsibility lies with the Head of Internal Audit & Adults & Children’s Financial Services in-conjunction with the County Treasurer. The County Treasurer would also liaise with the Director of Corporate Services in respect a matter of this nature.
- d. The Audit & Standards Committee does not approve the remuneration of the Chief Internal Auditor. The Pay of the Chief Internal Auditor is in accordance with the Council’s Pay structure, Grading and JE processes which are owned corporately.

53. The one standard which is categorised as “not applicable” related to an external internal audit service provider who acts as the internal audit activity.

54. The full action plan is attached as **Appendix 3** to this report.

55. The work undertaken by the Internal Audit Service during 2019/20 and reported within the Annual Outturn Report has been performed in accordance with PSIAS. In relation to this, there are no impairments or restrictions in scope or impairments in independence or objectivity during the year which prohibit the Chief Internal Auditor or the Service from delivering the annual Head of Internal Audit opinion for 2019/20.

Equalities Implications

56. There are no direct implications arising from this report.

Legal Implications

57. There are no direct implications arising from this report.

Resource and Value for Money Implications

58. The net budget of the Internal Audit Section in 2019/20 was £758,430 of which £65,900 related to payments to external providers.

Risk Implications

59. Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Corporate Strategic Risk Register.

Climate Change Implications

60. There are no direct implications arising from this report.

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List of Reference Material

1. Audit Management System
2. Annual Audit Plan & Strategy 2019/20
3. 2019 Audit Charter
4. Public Sector Internal Audit Standards – revised with effect from 1st April 2017.
5. Local Government Application Note – with effect from 1st March 2019
6. Accounts and Audit (England) Regulations 2015.
7. CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations (2019 Edition).
8. 2019/20 Progress Reports to Audit & Standards Committee & various Internal Audit Reports