

<b>Local Members Interest</b>	
	<b>N/A</b>

## **Audit and Standards Committee – 13<sup>th</sup> July 2021**

### **Internal Audit Outturn Report 2020/21**

#### **Recommendation**

1. To receive the outturn report containing the annual internal audit opinion for 2020/21.

#### **Report of the County Treasurer**

#### **Background**

2. This report outlines the work undertaken by Internal Audit in respect of the 2020/21 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 processes<sup>1</sup>.
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:
  - The opinion;
  - A summary of the work that supports the opinion; and
  - 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 2020/21 plan were outlined in the Internal Audit Strategy and Plan approved (virtually) by Members of the Audit & Standards Committee on 20<sup>th</sup> April 2020. Since the original plan was approved, a number of additional audits have been required to support the Council's response to the COVID 19 pandemic, whilst some planned reviews were no longer needed and several deferred due to operational requirements including the availability to undertake audits in some service areas due to staff-dealing with the COVID 19 pandemic . 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

---

<sup>1</sup> Public Sector Internal Audit Standards definition of Internal Auditing.

report stage at the end of the audit year. In respect of this point, due to the continuing impact of the COVID 19 pandemic and staff availability to finalise draft reports, there were a greater number of reports still at draft report stage as at the end of March/April 2021. However, the Internal Audit Team have continued to proactively seek management responses to all outstanding draft reports and most responses 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 2020/21 Internal Audit Plan for systems audits:

<b>Controls Evaluated</b>	<b>1,034</b>
<b>Adequate Controls</b>	<b>570</b>
<b>Partial Controls</b>	<b>313</b>
<b>Weak Controls</b>	<b>151</b>

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**.

- Substantial Assurance
- Adequate Assurance
- Limited Assurance

7. Paragraphs 9 to 34 provides a high-level summary of the work undertaken by the Section analysed by the following categories:

- High Risk Auditable Areas;
- Main Financial Systems;
- Systems Audits (reported by exception, i.e. only those with “Limited Assurance” and/or those with a High-Level Recommendation);
- Compliance Reviews (including financial management in maintained Schools, comfort funds, Registry Offices and District Offices reviews);
- Special Investigations/Fraud & Corruption Related Work.

8. 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 2020/21, 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” as part of our recommendation tracking system.

## 2020/21 Audit Plan Outcomes

### High Risk Auditable Areas

9. Our Internal Audit and Strategy and Plan Paper identified the top risk audits/reviews for the County Council in 2020/21. 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), the Adult Social Care (ASC) Pathway and the Modernising ASC Programme, as well as the delivery of the Council's 'digital first' principle and the Climate Change principle and work in other corporate services such as: Strategic Property, Cyber Security arrangements, Information Management and the Council's Partnership Arrangements.
10. The audit opinions for all the high-risk reviews are summarized in the table below:

System Area	2020/21 Opinion	2020/21 Consultancy
Digital Programme - Value	Adequate Assurance	
Digital Programme Board	-	✓ Project advisory work
Care Director V6 Upgrade – Project Governance	Substantial Assurance	
Microsoft 365 Project	-	✓ Project advisory work
Climate Change	Adequate Assurance	
Adult Social Care (ASC) Pathway	Adequate Assurance	
Modernising Adult Social Care Programme	Cancelled – Deferred to 2021/22	
Special Education Needs and Disability (SEND) Joint Inspection - Update	Substantial Assurance	
SEND Transformation - High Needs Block	Substantial Assurance	
SEND Transformation - Governance - Local Hubs	Substantial Assurance	
*SEND Transformation - Governance - Decision Making Groups	Limited Assurance	
Children & Families System Transformation: Project Governance	Substantial Assurance	
Children & Families System Transformation: Place Based Approach	Adequate Assurance	
Partnerships – Governance & Management	**Draft Report with Management (Limited Assurance)	
Strategic Property Asset Management and Governance	Limited Assurance	
*Governance & Culture of Cyber Security	Limited Assurance	
Culture & Ethics	Cancelled – Deferred to 2021/22	
Information Management	Limited Assurance	

\*Included as part of the confidential agenda pack for this meeting.

\*\* 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.

11. The five Limited Assurance reports issued for the high-risk systems areas in 2020/21, relate to; SEND Transformation Governance - Decision Making Groups; Partnerships – Governance & Management (Draft Report); Strategic Property Asset Management and Governance; Governance & Culture of Cyber Security; and Information Management. As a result of these 2020/21 reviews several 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 **n.b.** once the Partnerships – Governance and Management review has been finalised, the full report will be presented at a future meeting of the Committee:

System Area	Areas for Improvement
SEND Transformation Governance - Decision Making Groups	<ul style="list-style-type: none"> <li>• <b>Scheme of Delegation:</b> The previous audit found that decision making processes were not aligned to the current Families and Communities Sub Scheme of Delegation. Since the previous review whilst some improvements have been made i.e. the Assistant Director for Education Strategy and Improvement and the Head of Vulnerable Learners Services are now members of County DMG to provide senior oversight around decision making, the Scheme of Delegation is yet to be reviewed.</li> <li>• <b>Procurement Regulations:</b> The previous audit found that decision making processes and all the decisions sampled were not aligned to Procurement Regulations. At the time of the 2019/20 audit a variation to Procurement Regulations had been drafted though had not yet been approved and did not extend to decisions made by Locality DMG's. While the variation to Procurement Regulations has now been approved, the completion of this outstanding recommendation is also dependent on the wider review of the Scheme of Delegation.</li> </ul>
Strategic Property Asset Management and Governance	<ul style="list-style-type: none"> <li>• <b>Property Strategy:</b> Still outstanding was a review of the contents of the Council's Property Strategy considering CIPFAs guidance, Internal Audit's feedback during the course of the 2019 audit and other property strategies developed by leading Councils in relation to property management.</li> <li>• <b>Team Restructure:</b> The Strategic Property Team restructure was yet to be fully completed although it was under way and some progress had been made.</li> <li>• <b>Lease Management:</b> 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. While some of the issues identified in 2019 had been addressed such as the lease module is now up and running, Internal Audit found that there has been no further progress made around clarifying and communicating the roles and responsibilities in relation to setting up, billing and collection of rents, and there are no clear roles and responsibilities in relation to debt recovery, monitoring and reporting arrangements.</li> <li>• <b>Performance Management Framework:</b> A performance management framework was not in place to measure the successful implementation of the Council's Property Strategy. The previous audit recommended that a small number of high-level Key Performance Indicators should also be developed that align to the Council's Property Strategy in order that the success of the Strategy can be measured was also outstanding.</li> </ul>
Governance & Culture of Cyber Security	<ul style="list-style-type: none"> <li>• <b>Cyber Security Reporting:</b> Cyber security did not feature as a regular agenda item at meetings such as the Corporate Review Committee; Audit and Standards Committee; Cabinet; and Informal Cabinet and the Cabinet Member for Finance &amp; Resources only receives reports on an ad-hoc basis and SLT had only began to receive high level monthly reports since October 2020.</li> <li>• <b>Adequacy of Management Information Reported:</b> Whilst monthly reports had recently started to be presented to the Senior</li> </ul>

	<p>Leadership Team, these were not sufficient to underpin discussions and decision making. For example, information around risks, trends, emerging threats, and substantial issues found in vulnerability/penetrations tests and Internal Audit reports were not being reported.</p> <ul style="list-style-type: none"> <li>• <b>Risk Registers:</b> Whilst the SICT departmental and corporate risk registers both made mention of cyber, it was noted that at number of improvements could be made to: the detail contained within the risk registers; the reporting of cyber risks; the setting of a cyber risk tolerance level; the monitoring of cyber risk trends; and the linking of cyber risks to the Information Asset Register.</li> </ul>
Information Management	<ul style="list-style-type: none"> <li>• <b>Information Management Strategy:</b> The Council does not have an information management strategy in place. While there are individual policies in place, these do not state any common objectives and principles which are indicative of an IM strategy.</li> <li>• <b>Information Management Framework:</b> There is currently no active information management framework in place at the Council. Whilst there has historically been a framework in place, this has since been taken down due to a lack of buy in from other service areas.</li> <li>• <b>Information Management Priorities:</b> As there is currently no information management framework or strategy in place, information management priorities to support strategic objectives, along with their costs and benefits have not been identified and defined. The IGU were also not aware of any departmental information management priorities to ensure alignment to corporate information management priorities.</li> <li>• <b>Information Management Action Plans:</b> There are no formal departmental information management action plans in place which reflect information management priorities.</li> </ul>

12. In addition, for those reports relating to high risk auditable areas, with an opinion of at least “Adequate”, one high level recommendation was made as follows:

System Area	Areas for Improvement
Climate Change	<ul style="list-style-type: none"> <li>• <b>Governance Arrangements:</b> The governance around the Climate Change Steering Group was not robust and does not effectively support the delivery of the Climate Change action plan.</li> </ul>

13. The top risk audit reviews relating to SEND Transformation Governance - Decision Making Groups and Governance and Culture of Cyber Security which were awarded a limited assurance opinion will be discussed in detail when the Committee reaches this part of the agenda. The remaining top risk reviews awarded an adequate/substantial assurance opinion, and which have not been previously presented to the Audit and Standards Committee will be distributed to Members of the Committee outside of this meeting for further consideration.

## Main Financial Systems

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

<b>Main Financial System</b>	<b>2017/18 Opinion</b>	<b>2018/19 Opinion</b>	<b>2019/20 Opinion</b>	<b>2020/21 Opinion</b>	<b>Direction of Travel</b>
Liberata Payroll System	Limited Assurance	Adequate Assurance	Adequate Assurance	Adequate Assurance	→
Pensions Payroll	Adequate Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Custodian, Investment Managers and Pensions Property	Substantial Assurance	Not Covered in 2018/19	Not Covered in 2019/20	Substantial Assurance	→
Pensions Fund – Local Government Pension Scheme (LGPS): Asset Pooling – Governance & Financial Reporting Arrangements	N/A in 2017/18	Project Advisory Work in 2018/19	Adequate Assurance	Substantial Assurance	↑
Pension Fund – Pension Administration	Adequate Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pension Fund – Governance (SCC Local Governance)	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Pooled Investments (LGPS Central) - Transitions	Not covered in 2017/18	Not Covered in 2018/19	Substantial Assurance	Substantial Assurance	→
Budgetary Control	Substantial Assurance	Substantial Assurance	Substantial Assurance	Substantial Assurance	→
Procure to Pay	Adequate Assurance	Not covered in 2018/19	Substantial Assurance	Not Covered in 2020/21	→
Sales to Cash including Debt Recovery Function & Debt Management	Limited Assurance	Limited Assurance	Adequate Assurance	Draft Report with Management General Debts - (Limited Assurance) CCG/Other Health Body Debts– (Adequate Assurance)	↓
E- Payments	Substantial Assurance	Substantial Assurance	Not Covered in 2019/20	Substantial Assurance	→
Cheque Control	Not covered in 2017/18	Substantial Assurance	Not Covered in 2019/20	Not Covered in 2020/21	→
Main Accounting Including Bank	Bank Reconciliation Adequate Assurance	Substantial Assurance	Not Covered in 2019/20	Substantial Assurance	→

Main Financial System	2017/18 Opinion	2018/19 Opinion	2019/20 Opinion	2020/21 Opinion	Direction of Travel
Treasury Management & Lloyds Link	Not covered in 2017/18	Substantial Assurance	Not Covered in 2019/20	Substantial Assurance	→
Value Added Tax (VAT)	Not covered in 2017/18	Substantial Assurance	Not Covered in 2019/20	Not Covered in 2020/21	→

15. There has been one Limited Assurance report issued for the main financial systems areas in 2020/21 relating to sales to cash (including debt recovery). It should be noted that the audit in 2020/21 reviewed both general debts, as well as the end to end debt management processes for CCG/other Health bodies. Our work in 2020/21, provided limited assurance for the arrangements in place to deal with general debts and adequate assurance for the arrangements in place to deal with CCG/other Health bodies debts. The high-level issue related to the debt management arrangements in place for general debts and is as follows:

System Area	Areas for Improvement
Sales to Cash (Including Debt Recovery)	<ul style="list-style-type: none"> <li><b>Credit Notes:</b> Credit notes can be processed without authorisation and could be actioned inappropriately as officers may have the ability to by-pass the credit note authorisation process with manual input via the SLS315 screen (Direct Credit Note Entry).</li> </ul>

The Sales to Cash limited assurance review is contained in the confidential agenda and will be discussed in detail when the Committee reaches this part on the agenda.

16. For those other main financial system reports with an opinion of at least “Adequate”, no further high-level recommendations have been made.

Systems Audits – (reported by exception, i.e. only those with Limited Assurance and/or those with a high-level recommendation).

17.

System Area	2020/21 Opinion Awarded
Infrastructure + Contract Quality Systems	Draft Report - Limited Assurance*
Special Guardianship Payments	Limited Assurance **
Third Party Access Arrangements	Limited Assurance
Purchase Cards – Internal Control Failings Report & Lessons Learnt	Limited Assurance ***
COVID 19 – Infection Control Grant Funding – Tranche One	Limited Assurance

\*Currently 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

\*\*although no high level recommendations were made, ten medium level recommendations were made to improve the control environment resulting in a limited assurance opinion.

\*\*\* Linked to a significant fraud investigation in 2020/21 which is currently being investigated by the Police and therefore details of the high level issues cannot be reported to the Committee at this time.

18. The high-level issues arising from these reviews are shown in the table below:

System Area	Areas for Improvement
Third Party Access Arrangements	<ul style="list-style-type: none"> <li>• <b>Approval of Third Party Access Requests:</b> The approval of third party requests is not always explicit, nor is approval consistently documented to evidence the approval.</li> <li>• <b>Third Party Access Requests:</b> A sample of 10 third party access requests were tested which showed that 4 declarations had not been countersigned by the SCC Sponsor; and 2 Acceptable Use Policies had not been signed/were not held on file</li> <li>• <b>Third Party Access Log:</b> Not all fields in the Third Party Spreadsheet maintained by the IGU to record the details of all approved third party access requests had been completed in full.</li> <li>• <b>Accuracy of Third Party Access Log:</b> The number of third party accounts in Active Directory, significantly exceeds the number of accounts recorded in the third party spreadsheet maintained by the IGU.</li> <li>• <b>Account Creation:</b> Contrary to policy, 746 of the 816 enabled third party accounts that could be identified, were not set to expire. Of those accounts with an expiry date, 10 were set to expire in excessive of the 12 months stipulated in policy, with 3 expiring in 2023.</li> <li>• <b>Use of Generic Third Party Accounts:</b> Contrary to Council Policy, generic third party accounts have been created. This goes against best practice.</li> <li>• <b>Use of remote Support Accounts (VPN Accounts):</b> Testing of VPN accounts showed that all 15 accounts were enabled, with only 8 having an end date recorded. Two of these accounts had passwords that did not expire.</li> </ul>
COVID 19 – Infection Control Grant Funding – Tranche One	<ul style="list-style-type: none"> <li>• <b>Adequacy of Supporting Documentation:</b> Inadequate documentary proof was supplied as evidence of the additional costs incurred due to COVID 19 restrictions by the majority of providers reviewed (75% of the sample). This related to four of the seven Care Homes (57%) and all five Community providers tested (100%).</li> <li>• <b>Incomplete Documentation:</b> Five providers out of the 12 sampled (three Care Homes and two Community providers) did not supply evidence equal to the amount of grant received indicating that differences were potentially reclaimable by the Council. Other providers response forms also identified reclaimable amounts that had not been dealt with at the time of the audit.</li> <li>• <b>Compliance with Grant Conditions:</b> Non-compliant spend was identified including two Community providers spending grant funding on PPE which is not eligible, training dates outside the permitted timeframe and uniform costs which were unclear in terms of the eligibility.</li> <li>• <b>Internal Review Arrangements:</b> Given the level of anomalies detected, further qualitative checks on providers are required to be undertaken.</li> </ul>

19. The system audit review relating to the COVID 19 – Infection Control Grant Funding – Tranche One is contained in the confidential agenda and will be discussed in detail when the Committee reaches this part of the agenda. n.b. The limited assurance review relating third party access has been reported to a previous meeting of the Audit & Standards Committee.



20. 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
Commercial Services (Procurement)	<ul style="list-style-type: none"> <li>• <b>Compliance with Procurement Regulations:</b> Two procurements did not evidence client approval of the Sourcing Strategy. In addition, in three out of twelve cases where vendor spend was over £25k but where no contract was recorded, evidence of either a procurement exercise being carried out or an exception being approved could not be found. Therefore, audit testing cannot give assurance that in these instances spend has been procured in accordance with the Council's Procurement Regulations.</li> </ul>
Customer Contact Centre - Letting of County Buildings	<ul style="list-style-type: none"> <li>• <b>Billing Arrangements:</b> Debtor Invoices were not being raised in a timely manner, with payments being received after the event has taken place.</li> </ul>
Department for Transport - Bus Subsidy Grant	<ul style="list-style-type: none"> <li>• <b>Letting of Local Services Bus Operator Contracts:</b> Areas for improvement in the letting of local service bus operator contracts to provide further transparency and fairness have been identified in respect of the following areas; post sourcing strategy changes; declarations of interests, tender evaluations and contract awards.</li> </ul>
Earned Autonomy - Building Resilient Families & Communities (BRFC) – October 2020	<ul style="list-style-type: none"> <li>• <b>Management Checks:</b> Management checks are not identifying errors and omissions within claims to ensure issues of non-compliance with BRFC requirements are detected and addressed prior to submission.</li> </ul>
Earned Autonomy - Building Resilient Families & Communities (BRFC) – January 2021	<ul style="list-style-type: none"> <li>• <b>Record Keeping:</b> Testing identified that there are gaps and anomalies within the information being recorded in Capita One and the supporting documentation.</li> </ul>
Care Director Data: Recording and reporting	<ul style="list-style-type: none"> <li>• <b>Performance Reporting:</b> Detailed procedures were not in place to document the process for the production of ALDT (Adults Learning and Disabilities Team) or Safeguarding performance reports.</li> </ul>
Capita ONE (Application Security)	<ul style="list-style-type: none"> <li>• <b>User Access Management:</b> Testing found a total of 22 accounts that had been assigned the system administrator role. System administrator rights grant the user full control of the system.</li> </ul>
Data Protection Act Incorporating GDPR - Data Retention	<ul style="list-style-type: none"> <li>• <b>Destruction Arrangements:</b> Five of the seven systems surveyed do not currently destroy records once they have reached the end of their retention period. This is in part due to being subject to the IICSA requiring these systems to retain information relevant to the inquiry.</li> </ul>
Bank Mandate Processes	<ul style="list-style-type: none"> <li>• <b>Vendor Change requests:</b> There is no consistent process in ACFS to verify bank details and where processes do exist independent verification is not evidenced or attached to the My Finance record.</li> <li>• <b>Separation of Duties:</b> Officers in ACFS who have access to authorise payments are also able to create new vendors and action changes to vendors in My Finance, exposing the Council to unnecessary fraud risk.</li> <li>• <b>Training:</b> Training has not been provided to staff in ACFS regarding completion of independent verification checks and there is no guidance for users on the training platform.</li> </ul>
COVID Local Outbreak Control - Decisions & Actions	<ul style="list-style-type: none"> <li>• <b>Audit Trails:</b> Improvements are required to evidence that agreed Incident Management Team actions have been completed and signed off, as the review found that this area was weak in terms of control.</li> </ul>

21. 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 2020/21, 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.
22. In 2020/21, a GDPR checklist was completed for 21 system audit reviews. Of these, compliance issues were noted in 5 reviews resulting in one medium and four low-level recommendations/minor points being made. 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 Including Financial Management in Maintained Schools

23.

Audit Type	Audit Opinion			Total No.
	Substantial Assurance	Adequate Assurance	Limited Assurance	
<b>Compliance: Schools</b>				
High Schools	0	3	1	4
All other schools	0	12	2	14
Schools Compliance – Short Stay Schools (PRUs)	0	2	0	2
<b>Compliance: Other</b>				
Comforts Funds*	11	0	0	11
Educational Endowment Funds*	3	0	0	3
Families First District Offices	1	0	0	1
Register Offices	2	0	0	2
<b>Compliance Reviews</b>	<b>17 (46%)</b>	<b>17 (46%)</b>	<b>3 (8%)</b>	<b>37</b>

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

#### Compliance Reviews: Financial Management in Maintained Schools

24. Schools Payroll – For the year 2020/21, 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 paragraph 27 below.

#### Schools Compliance

25. 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. In addition, a Schools Fraud Risk Assessment was also developed at the end of 2020/21 to enhance our risk assessment methodology from 2021/22 onwards.

26. From the table above, one high school; one junior school and one primary school were awarded a limited assurance opinion in 2020/21. 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; lettings governance and administration processes; the proper maintenance of records relating to payroll transactions including authorisations for appointments, terminations, variations and additional hours; the proper authorisation of the payroll; and the appropriateness of validation checks undertaken.

Generally, the compliance and payroll themed reviews identified non-compliance with key controls in the following areas:

27. Schools – General Compliance

Governance

- Scheme of Delegation requires amendment/approval. *(17 schools)*
- Budgets have not been set, approved, or reviewed in accordance with the Scheme of Delegation and Financial Regulations including budget deficit strategies. *(3 schools)*
- Policies not approved in accordance with the Scheme of Delegation. *(11 schools)*
- No/out of date debt management policy which does not cover all areas of income. *(3 schools)*
- The Strategy to address budget deficits is not clearly documented in Governor minutes. *(3 schools)*
- Lack of Governor challenge to budget monitoring reports. *(1 school)*
- Financial reports are not submitted to the Committee responsible for Governance of School Finances or reports are inadequate. *(2 schools)*
- The School Fund is not audited and approved in accordance with requirements of Financial Regulations. *(13 schools)*
- Pecuniary interest register is not up to date or held/published in accordance with guidance. *(13 schools)*
- 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 and expenditure of extended School Provisions (Below the line accounts) are not coded to the correct cost centres. *(2 schools)*

Income

- Income is not banked promptly and/or intact. *(9 schools)*
- Key(s) to safe is/are not held securely or in accordance with the Scheme of Delegation. *(1 school)*
- Income is not recorded or receipted in accordance with Financial Regulations, including a clear audit trail. *(15 schools)*
- Transfer of income between officers is not evidenced. *(7 schools)*
- There is a lack of separation of duties or independent check in the income and banking process. *(6 schools)*
- Monies are held on behalf of third parties in the School safe with sums not insured. *(1 school)*
- 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)*
- Lettings are not administered appropriately, including VAT and evidence of

- public liability insurance. *(14 schools)*
- The School does not have a lettings policy, lettings policy is out of date or lettings charges are not detailed in the Charging and Remissions Policy. *(7 schools)*
- Lettings charges are not made in accordance with policy or reviewed and approved annually. *(4 schools)*
- Invoices have not been raised in the finance system or unofficial invoices have been raised. *(6 schools)*
- Access to online income payment systems is not appropriate. *(1 school)*
- No independent spot check of income received/banked is conducted. *(12 schools)*
- No independent reconciliation or review of Parent Pay postings. *(2 schools)*
- Aged Debtor Accounts are not monitored effectively; outstanding payments are not pursued by the School. *(1 school)*
- Paying in slips are not stamped or evidenced as received by the bank. *(2 schools)*
- The School is using an unofficial online payments system which has not been notified to the S.151 Officer. *(1 school)*
- Lack of recorded of cash income received in the online payment system. *(1 school)*
- Debtor invoices are not raised promptly. *(1 school)*

#### Procurement

- No financial limits set for declared pecuniary interest in companies. *(10 schools)*
- Value for money procedures such as quotations/tenders not complied with in accordance with Scheme of Delegation or Procurement Regulations. *(12 schools)*
- Procurement/purchase card transactions not in accordance with Scheme of Delegation and Procurement Regulations. *(2 schools)*
- Purchase card used for inappropriate purchases. *(4 schools)*
- Purchase card is not held/ used in accordance with the Purchase Card Manual/ Financial Regulations. *(3 schools)*
- Purchase card transactions split to avoid purchase card transactional limits. *(1 school)*
- Incorrect accounting for VAT. *(10 schools)*
- Purchase orders are not raised to support procurements in accordance with Financial Regulations. *(15 schools)*
- Contractor(s) used do not have a minimum of £5m public liability insurance in accordance with Procurement Regulations or checks had not been completed. *(5 schools)*
- Contracts are not in place for regular services where they would be expected. *(4 schools)*

#### Expenditure

- Expenditure incurred without adequate approval/review in accordance with the Scheme of Delegation. *(5 schools)*
- Expenditure does not agree to the contracts in place for supply of services. *(2 schools)*

### Schools – Payroll Themed Audit

- Authorisations for appointments, terminations and variations could not be evidenced, is not consistent and/or retained on personnel files. (9 schools)
- Claim forms not signed by employee and/or not authorised in accordance with the Scheme of Delegation. (6 schools)
- Validation checks and agreement/authorisation of the payroll is not evidenced. (9 schools)
- Service level agreement for current year to confirm services to be provided/costs not received. (3 schools)
- Contract for provision of payroll services not authorised in accordance with Scheme of Delegation. (4 schools)
- Procedures not in place to ensure the prompt receipt of contracts of employment. (1 school)
- Pre-recruitment checks could not be verified. (2 schools)
- Lack of separation of duties between input of payroll information and checking of payroll reports. (5 schools)
- Mileage, expenses, and additional hours claims not reviewed, authorised in accordance with Scheme of Delegation or supported by receipts. (3 schools)
- Insufficient advertisement of new post to both internal and external candidates. (1 school)
- Bank details not retained for new starters. (2 schools)

### Compliance Reviews: Other

28. It is pleasing to note that the review of the Families First District Offices and Register Offices did not highlight any serious key control failings. However, lower level recommendations were made relating to:
- The need to ensure that that for purchase card transactions, VAT is only recovered in appropriate circumstances i.e. where a VAT receipt or invoice is obtained (Medium Level Recommendation raised);
  - the need to ensure that purchase orders are raised prior to the invoice being received (Low Level Recommendation raised).
  - The need to ensure that Spoil Disposal spreadsheets maintained at Register Offices for spoiled certificates are completed correctly and regularly (Low Level Recommendation raised).
  - The need to ensure that the credit card reconciliation form used by Register Offices is improved to include the date that the reconciliation is complete; the details of the officers completing and approving the reconciliation and the details and reason for any irreconcilable differences (Low Level Recommendation raised).

### Special Investigations/Fraud & Corruption Related Work

29. 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 2020/21 indicated that there are several 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 £	Commentary
<b>Internal Special Investigations of Fraud – To be Recovered/In Recovery</b>	£184,841	Please note: This figure excludes £216,887 relating to the attempted bank mandate fraud in May 2020 as this sum was returned to SCC's bank account promptly following the attempt due to the immediate action of the Council's Internal Audit & Finance Teams
<b>National Fraud Initiative (NFI) 2020* (all losses will be subject to final validation &amp; recovery action)</b>	£0	Potential data matches returned in February 2021 and are currently being analysed for further investigation.
<b>Total fraud losses (to be recovered)</b>	<b>£184,841</b>	

*\*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 crossed 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.*

30. The quantity of concerns referred to Internal Audit is comparable with the previous years at 34 (slight increase of four from the previous year), of which 15 related to areas of Council Activity. The volume of referrals not related to Council activity is accepted as a side effect of offering simple, anonymous reporting mechanisms and these are redirected to appropriate bodies. The actual value of referrals is, however, an increase on previous years, with much of the value coming from one serious fraud. Steps have been taken to identify control weaknesses and root causes of allegations where there is evidence of fraud or error, to help minimise future risk. The actual fraud loss related to referrals has increased from £145,848 in 2019/20 to £184,841 in 2020/21. Whilst this value is not seen to be material for 2020/21, it is the highest financial loss suffered by the Council for some time.
31. At the end of 2019/20 and during 2020/21, the Internal Audit Service was also asked to support the Council's response to the COVID 19 pandemic. Our initial 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. In addition, 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. The CCM Programme has continued as per previous years and additional testing was carried out in the Summer 2020 to allow additional monitoring of additional expenses and purchase card usage that arose as part of the Council's response to COVID 19. Furthermore, Internal Audit resources have been used in-year to provide assurance over the fraud controls operating relating to the arrangements for the procurement of Personal Protective Equipment (PPE); the recruitment of volunteers; the payment of volunteers' expenses, the receipt and issue of digital devices to vulnerable and disadvantaged children, the eligibility and distribution processes and controls relating to the food voucher scheme along with other grant verification exercises to ensure that COVID 19 funding had been spent by third parties as intended.

- 32. 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 is considered significant but not material.
- 33. The table below shows the trend of actual financial loss due to fraud and error over the past decade:

Year	Financial Value	Direction of Travel
2011/12	£179,312	↑
2012/13	£29,831	↓
2013/14	£101,753	↑
2014/15	£94,140	↓
2015/16	£73,115	↓
2016/17	£56,690	↓
2017/18	£105,232	↑
2018/19	£77,085	↓
2019/20	£145,848	↑
2020/21	£184,841	↑

- 34. 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%

Based on the above criteria the overall score awarded for this category is **60%** (i.e.30% for the special investigations elements as the actual financial loss incurred is between £150,000 to £200,000. 30% 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. The following methodology outlined below, has been used as the basis to form the annual assessment of the overall internal control environment for 2020/21.

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:

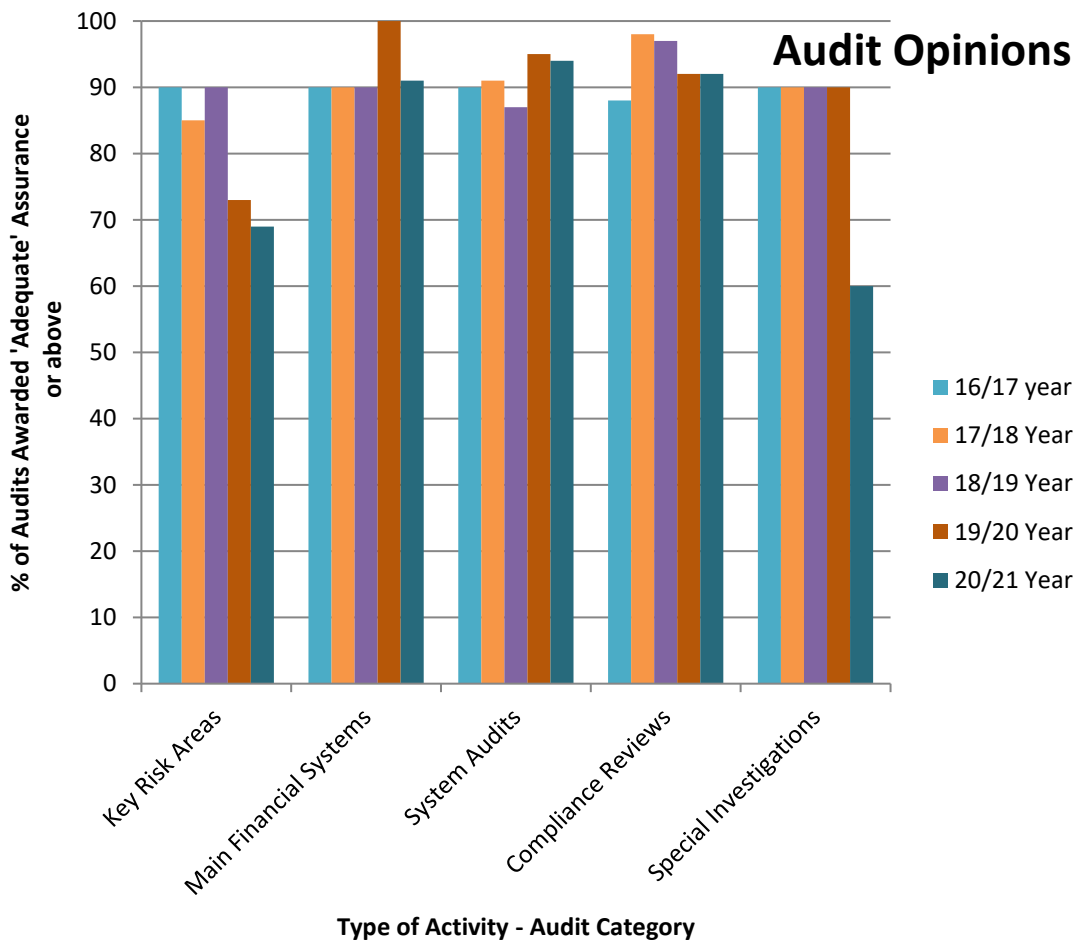
Overall Opinion Level	No of categories achieving the 90% benchmark
Substantial Assurance	5 out of the 5 categories
Adequate Assurance	3 or 4 out of the 5 categories
Limited Assurance	2 and below out of the 5 categories

Implications

37. The following table details the calculation of the 2020/21 overall assessment:

Audit Category	% awarded an opinion of at least "adequate"	Pass/Fail
Key Risk Areas ( <i>paragraphs 9 to 13</i> )	69%	Fail
Main Financial Systems ( <i>paragraphs 14 to 16</i> )	91%	Pass
System Audits ( <i>paragraphs 17 to 22</i> )	94%	Pass
Compliance Reviews ( <i>paragraphs 23 to 28</i> )	92%	Pass
Special Investigations/Fraud & Corruption Related Work ( <i>Paragraphs 29 to 34</i> )	60%	Fail
<b>Overall Total</b>		<b>3 out of 5 categories passed</b>

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, 2016/17 to 2020/21:





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 2020/21.
40. This year’s audit plan has been dominated firstly by our planned audit activities which supported not only the Children and Families System Transformation and Special Education Needs and Disabilities (SEND) Transformation but also the Council’s digital transformation programme, Strategic Property Asset Management, Information Management and cyber security arrangements. Some high-level issues have been raised in 2020/21 although Internal Audit’s work highlighted that system improvements had been made within the SEND and Strategic Property areas in-year. In respect of these areas, Internal Audit will continue to support the design and implementation of a robust control environment in 2021/22 and SEND will continue to be a key focus for the 2021/22 Internal Audit Plan. Secondly and in addition to our planned work, during 2020/21, Internal Audit has supported the Council’s COVID 19 response and undertaken several audit reviews and provided real-time advice and guidance covering areas such as the distribution and use of COVID 19 grant monies and the Council’s decision making arrangements relating to COVID 19 activities. Whilst some high level issues were identified from our work, it is acknowledged that the Council has had to put in place a number of new processes to administer financial and other support to vulnerable groups within our communities within very tight timescales to respond to the national pandemic. The 2021/22 Internal Audit Plan continues to have time allocated to support both the Council’s COVID 19 response and recovery activities during the year ahead.
41. Emphasis on strong financial management continued in 2020/21 with a full audit programme of main financial systems conducted. The Council’s debt recovery arrangements continue to be an area of concern with the level of debt outstanding continuing to increase. However, it is again acknowledged that the level of debt outstanding has been impacted on by COVID 19 in-year. Internal Audit will continue to keep this area under review in 2021/22. In relation to the payroll control environment for the Council’s core payroll, this area has again been awarded an adequate assurance opinion, with no high level issues raised, which is pleasing to note. However, the 2020/21 Schools’ compliance programme has continued to identify areas of non-compliance and lapses in internal controls 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 during 2020/21.
42. It is noted that the overall number of limited assurance opinions awarded across all categories of our work has risen slightly with 14 limited assurance opinions awarded in 2020/21, compared with 10 in 2019/20 and 11 awarded in 2018/19. 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 which has been previously raised and will have been further impacted on by the COVID 19 pandemic during 2020/21. 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 2021/22 Internal Audit Plan.

43. Finally, at the beginning of 2020/21, the Council was subject to two serious frauds (attempted bank mandate fraud and the fraudulent misuse of Council Purchase Cards), both of which have been investigated and a number of high level issues were raised for remedial action by management. In relation to the fraudulent misuse of purchase cards, Internal Audit will continue to support the service area to ensure that revised processes and procedures are operating as expected during 2021/22. Furthermore, assurance in this area will be regularly provided to the Audit and Standards Committee during 2021/22 to provide on-going comfort that revised internal controls and checks are operating as intended. One further area worthy of note related to our investigative and proactive work carried out in year relating to school taxi providers. A lack of contractual compliance by the taxi providers was identified and further work in this area is proposed for the 2021/22 financial year to support the Transport Team in improving the systems of control across the taxi transport sector.

### Performance Measures

44. 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 2020/21. The Service continues to meet the KPI targets for the quality questionnaire feedback.

Description	Target %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
Reports issued to draft report stage:					
➤ Systems Audits	90	92	96	92	97
➤ Compliance Audits	90	95	92	90	93
Average score for Quality Questionnaires from clients is equal to or exceeds the 'good' standard:					
➤ System Audits	90	100	100	100	100
➤ Compliance Audits	90	100	100	100	100

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

45. 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).
46. 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 have continued to operate since this date.

47. 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:

- *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
- *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.

48. The results of this year's updated self-assessment exercise against the current standards and LGAN are summarised below. 94% of the standards are deemed to be fully in place.

<b>Standard</b>			
<b>In Place</b>	<b>Partially In Place</b>	<b>Not In Place</b>	<b>Not Applicable</b>
127 (94%)	3 (2%)	4 (3%)	1 (1%)

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

49. 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:

- 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.
- The Audit & Standards Committee does not approve the Internal Audit budget. This is the responsibility of the County Treasurer via Full Council.
- 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.

- 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.

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

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

50. The work undertaken by the Internal Audit Service during 2020/21 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 2020/21.

### **Equalities Implications**

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

### **Legal Implications**

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

### **Resource and Value for Money Implications**

53. The net budget of the Internal Audit Section in 2020/21 was £982,700 of which £67,000 related to payments to external providers.

### **Risk Implications**

54. 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**

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

---

### **Report author:**

Author's name: Deborah Harris – Chief Internal Auditor (interim)  
Ext. No. 01785 276406  
Email: [deborah.harris@staffordshire.gov.uk](mailto:deborah.harris@staffordshire.gov.uk)

## **List of Reference Material**

1. Audit Management System
2. Annual Audit Plan & Strategy 2020/21
3. 2020 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. 2020/21 Progress Reports to Audit & Standards Committee & various Internal Audit Reports