

**REPORT OF THE DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR RESOURCES**

**INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION**

**1. PURPOSE OF REPORT**

This report presents one Internal Audit report selected for detailed examination, deferred from the November meeting. The Audit Committee's role is to appraise the quality and scope of the Internal Audit work and determine whether the action taken by the audited service was sufficiently robust and prompt in response to the audit findings. Colleagues from Internal Audit and the reviewed service will be present at the meeting to assist this activity.

**2. RECOMMENDATIONS**

To critically appraise the Internal Audit report at **Appendix 1** (Foster Care & Adoption) to:

- determine whether the audit work was of an appropriate quality and scope;
- determine whether the Fostering and Adoption service's response was sufficiently proportionate, robust and prompt;
- make any further observations and/or comments considered relevant;
- determine any further action.

**3. REASONS FOR CONSIDERATION**

The critical appraisal of selected Internal Audit reports by Audit Committee is an important aspect of the Council's governance framework. This helps the Committee to fulfil its responsibility to receive reports on the work undertaken by Internal Audit and to critically appraise its performance. In doing this, the Committee is testing the robustness of and contributing to the organisation's audit and other governance arrangements. This also aids development of a deep understanding of the Council's internal control environment and Internal Audit working practices. Issues to consider are:

- how the audit was selected – for example the risk assessment, the potential for fraud, previous track record of the service, frequency of the audit;
- whether the audit coverage was appropriate, adequate and correctly focussed;
- the time spent on the audit against the outcomes and findings;
- the quality of the Internal Audit report;
- the actual findings and the impact on the service and the Council overall;

- the service's response to the audit recommendations;
- the speed and robustness of the actions taken to address the recommendations;
- whether there are any learning points or principles that could be applied in future audit or governance work.

This list is illustrative only and the Committee is at liberty to explore other governance issues.

#### 4. **OVERVIEW OF WORK UNDERTAKEN**

**Appendix 1** is the final Foster Care & Adoption audit report issued on 29 March 2012. **Table A** outlines the audit work and summarises key issues.

<b>TABLE A – Foster Care &amp; Adoption</b>	
<b>Reason for audit:</b>	
Foster Care and Adoption is deemed a key financial system and as such is subject to annual internal audit as part of the Internal Audit Plan.	
<b>Assurance level:</b>	Limited
<b>Key findings</b>	
<ul style="list-style-type: none"> <li>○ Reviews over the past 12 months within Children and Families, concerning High Cost Placements, Disabilities and the 18 Plus Service identified common issues on the use of spreadsheets and access databases to either record payments being made or as a means of managing financial data. This had been done because the current financial systems were not capable of managing this data on an individual client basis; therefore work-arounds had been developed. The problem with this is that some of this data is interdependent in that the Foster Care/Adoption System is used to make payments for Home from Home (Children with Disabilities) and allowances for the 18 plus service. Another example would be where a child potentially goes from a High Cost Placement to a Foster Care Placement.</li> <li>○ A range of reports and features are missing from the existing system to enable the service to identify and manage workflow effectively, to budget more effectively, to support the integrity of data within the system and to correctly make payments to carers. The Foster Care/Adoption System is not co-ordinated with other children's social care information systems. A common solution for High Cost Placements, Disabilities, Fostering &amp; Adoption and the 18 Plus Service would be the best response to this.</li> <li>○ Authorisation to make foster care and adoption payments on the City Council's financial system is given by the Senior Creditors Officer. This is inappropriate because she has created the payments and in some weeks may exceed the limit which requires Portfolio Holder approval.</li> <li>○ No commitment of expenditure is recorded within the City Council's financial system when a placement is made. Therefore, when it comes to predicting the potential budget outturn for a period the only information the Business Manager can base his estimate on is the proportion of the year remaining and average spend. This principle is relatively simple and does provide a rough</li> </ul>	

guide. However, this method does not take into account the level or nature of current placements or known trends in the profile of expenditure on placements.

- Although modifications have been made to the Foster Care/Adoption System to allow advance payment runs, the operation of the database relies on only one user, the Senior Creditors Officer, and the service may still need to contact her whilst on leave or absent through illness.
- Legislation requires annual review of means tested allowances - this was not being complied with:
  - 15 out of 20 payments tested were valued correctly based on the information and means test in place.
  - 11 out of 14 means tests reviewed had been correctly performed. 5 means tests were considered too old to be worth reviewing and 1 was unavailable.
  - 5 out of 19 review dates had been set correctly.
  - 4 out of 19 were within review timescale and paid correctly.

There was no report on the system providing information on allowance review dates.

- An error was found in the balance reported on the one car loan initially selected for testing. The error was due to the fact that the spreadsheet produced estimates only, based on an opening date and the repayment amounts and calculated daily. In this case repayments started a fortnight later and repayments were weekly
- It was noted that for one car loan no payments had been received - this has been queried and although there is an agreement to repay the mechanism for payment had not been arranged with the carers concerned. For two further car loans repayments had stopped and these needed following up.
- Overpayments can arise for allowances due to a change in carer part way through a paid period. This is most likely for fostering allowances. The overpayments can be recovered by deduction from ongoing allowances, by a cheque received from the carer, or by recovery through Accounts Receivable. Most overpayments are recovered through deduction from ongoing allowances, but there is no reconciliation completed to show that all overpayments are recovered.
- The Foster Care system, which holds more than one million records, is an access database that was written and developed 11 years ago. Daily reports are generated from Care First which provides information about child placements. This information then has to be reinput into the Foster Care data base, which is inefficient. No replacement system had been procured.
- The system contains a large volume of data that is old and no longer relevant to current claims. This may be affecting the ability of the application to

process payments

- No contingency plan is in place specifically for payment of carers. A general contingency plan exists for loss of office accommodation and network.
- A number of individual petty cash payments exceeded the limit prescribed by CFPRS15 when we looked at this year's payments (after excluding initial clothing allowance as an exception).
- When petty cash payments were reviewed, it became evident that some of the payments were of a non-urgent nature and could have been paid through the standard payment system.
- There is no separation of duties between input of allowance rates and payment data. Errors were identified in rates in use.
- It was not initially clear whether an invoice had been raised for the only (inward bound) out of county placement tested. After some effort the invoice was identified, but it was not clear whether this is at the correct rate as there was no response to our enquiry. Such income was not coded or referenced consistently.

**Recommendations**

<b>Total:</b>	21	<b>High Priority:</b>	10	<b>Medium Priority:</b>	8
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**Time taken**

<b>Actual days:</b>	20.1	<b>Planned days:</b>	22
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**Implementation of recommendations**

The ownership of Internal Audit recommendations is the responsibility of the audit client and an update of progress has been included in the report.

**5. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None

6. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

Minutes from the Audit Committee meeting on 1 June 2012

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# Revised Final Internal Audit Report Foster Care & Adoption 2011/12 Children's & Families

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<b>Document title:</b>	revised final fostercare and adoption audit report for Audit Committee - February 15 2013	
<b>Issue Date:</b>	February 15 2013	
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# 1 Executive Summary

- 1.1 The City Council has a statutory duty to make Fostering and Adoption Payments under the Children's Act 1989 and subsequent National Minimum Standards and legislation. The City Council makes payments to carers, the 2011/12 budgets for which are £3m for Foster Care, £1.2m for Adoption, and £1m combined for Residence Orders and Special Guardianship. The Fostering and Adoption Service are responsible for over 300 children within their care.
- 1.2 The primary functions of the Foster Care Service are to recruit, assess, train, prepare, and support carers to care for children in a safe and supportive family environment. Nationally there is shortage of foster carers and support has been sought through the private sector by placing young people in independent fostering agency homes. This, however, is a higher cost solution.
- 1.3 The Adoption Service provides some financial support to carers depending on assessed need. The financial support varies from paying prospective adopters travelling expenses for introductory visits, to making regular payments where the carers require regular support for the children in their care due to residence, special guardianship or adoption orders.
- 1.4 The scope of the audit focussed primarily on the role of the Senior Creditors Officer which has been incorporated into the service this year, and the Foster Care/Adoption System which is a Microsoft Access based database system developed within the City Council around 10 years ago. The scope agreed was:-
  - Access controls around the Foster Care/Adoption System
  - Process of data back-up and retention
  - Payments made to foster carers and adopters
  - Debt recovery where overpayments have been generated
  - The review did not cover the corporate accounts payable process which has been covered as part of a review of the main financial systems.
- 1.5 Nottingham pays slightly higher basic fostering allowance rates than Nottinghamshire for most age groups. The rates are significantly higher when taking into account skills payments.
- 1.6 The Senior Creditors Officer shows willingness and desire to make the system work as well as possible within the limitations imposed by the system's design, and feels better supported within the Fostering and Adoption service than she had previously. However, although modifications have been made to the Foster Care/Adoption System to allow advance payment runs, the operation of the system relies on only one user, the Senior Creditors Officer, and the service may still need to

contact her whilst on leave or absent through illness. This gives rise to business continuity risks and the risk of employment related claims.

- 1.7 The service may wish to consider whether there would be benefits in bringing together staff in similar roles dealing with Disabilities, High Cost Placements, and 18+, to provide a measure of cover for the roles, supervision and to provide a consistent approach.
- 1.8 There is no separation of duties between input of allowance rates and payment data. Our tests found errors in one of the adoption allowances and one of the special guardianship allowances set up and used.
- 1.9 Fostering payments tested relating to children in care, were for a valid purpose and were paid at the correct rate. However, income in respect of (inward bound) out of county placements was not coded or referenced consistently and it was not clear that it was invoiced at the appropriate rate.
- 1.10 All residence orders, special guardianship, or adoption allowance payments tested related to children in care were for a valid purpose, and allowances were authorised by the service manager. Our testing showed that means tests are now checked by the business manager when available.
- 1.11 Overpayments can arise for allowances due to a change in carer part way through a paid period. This is most likely for fostering allowances. The overpayments can be recovered by deduction from ongoing allowances, by a cheque received from the carer, or by recovery through Accounts Receivable. Most overpayments are recovered through deduction from ongoing allowances. There is no reconciliation completed to show that all overpayments are recovered.
- 1.12 Two large overpayments are currently being repaid by deduction from current allowances. The second case is a high value loan
- 1.13 Interest free car loans may be made to fosterers or adopters, with repayment by deduction from ongoing allowances. The reconciliation of car loans is not effective; Advice has been given to outline the current position and training has been given to colleagues to help perform this reconciliation effectively.
- 1.14 Petty cash is paid by local administrators and the details of payments are recorded on the database. Petty cash was found to be authorised appropriately with the exception of 3 items where a service manager should have authorised them prior to payment because the value exceeded the maximum.
- 1.15 Payment runs from the Foster Care/Adoption System are reconciled to the payments generated prior to these payments being authorised. The Business Manager – Children in Care reviews and signs these reconciliations when he is available, which is most weeks.



Authorisation to make these payments on the City Council's financial system is given by the Senior Creditors Officer which is inappropriate because she has created the payments and may need prior approval by the Portfolio Holder.

- 1.16 The Foster Care/Adoption System does not record stopped and replacement cheques, and occasionally payment run errors are not corrected on the system, which leaves the system out of step with the City Council's financial system. There is no reconciliation of the Foster Care/Adoption System to payment ledgers; however a report of entries by cost centre and object account is provided on a weekly basis to the Business Manager – Children in Care who then produces estimated budget outturns.
- 1.17 No commitment of expenditure is recorded within the City Council's financial system when a placement is made. Therefore, when it comes to predicting the potential budget outturn for a period the only information the Business Manager can base his estimate on is the proportion of the year remaining and average spend. This principle is relatively simple and does provide a rough guide. However, this method does not take into account the level or nature of current placements or known trends in the profile of expenditure on placements.
- 1.18 We raised concerns over the Foster Care/Adoption system last year, and although the system has operated more effectively on the new server, the concerns are unchanged. Over the past 12 months we have undertaken other reviews within Children and Families, concerning High Cost Placements, Disabilities and the 18 Plus Service and identified common issues around the use of spreadsheets and access databases to either record payments being made or as a means of managing financial data. This has been done because the current financial systems are not capable of managing this data on an individual client basis; therefore work-arounds have been developed. The problem with this is that some of this data is interdependent in that the Foster Care/Adoption System is used to make payments for Home from Home (Children with Disabilities) and allowances for the 18 plus service. Another example of data interdependence would be where a child potentially goes from a High Cost Placement to a Foster Care Placement. Because there are such interdependencies a departmental solution is required in order that the common issues around recording and managing data can be improved. By investing in a common solution the department may be able to realise efficiency savings and should gain access to up to date management information that will support budget decisions concerning the care of young people.
- 1.19 However if a common solution is not provided then a range of reports and changes to the existing system are required to enable the service to identify and manage workflow effectively, to budget more effectively, to support the integrity of data within the system and to correctly make

payments to carers. These will have to be communicated, specified and developed with IT.

- 1.20 No report is available to identify workloads in respect of means test reviews for adoption, residence and special guardianship orders or foster care payments. As a result the service cannot effectively manage and resource the workload. In the longer term this might give rise to employment related issues.
- 1.21 It is disappointing to note that none of last year's audit recommendations have been adequately addressed. We note however that the role of the Senior Creditors Officer and full control over the Foster Care/Adoption System has only recently been brought within the service.

### **Opinion**

- 1.22 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the agreed Audit Brief. We are able to give **limited assurance** on the controls in this area.
- 1.23 We found that there are weaknesses in the design of the IT system leading to missing or weak controls, weaknesses in the operation of controls such as means test reviews and payment authorisation, and key controls such as reconciliation of car loans and high value overpayments were missing or not operating effectively. Also separation of duties is missing where it would normally be expected, as the system is heavily reliant on a single individual, whose workload needs to be better assessed and managed.

### **Added Value**

In addition to the assurance provided, our testing identified a car loan which was not being paid and had not been detected. We have also made suggestions for development of the Foster Care/Adoption System to support better management of workload, releasing resources for more effective use.

### **Action Plan and Follow up**

The detailed action plans are available on request and a hard copy will be available at the meeting

## 2. Glossary of Terms

### Levels of Assurance

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

**High Assurance** High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.

**Significant Assurance** Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.

**Limited Assurance** Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.

**No Assurance** No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

### Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

**High Priority** A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.

**Medium Priority** A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.

**Low Priority** The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases Internal Audit will follow up implementation of the recommendations by the agreed date