

AUDIT COMMITTEE - 27 NOVEMBER 2015

| | | |
|--|--|----------------------------|
| Title of paper: | INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION | |
| Director(s)/ Corporate Director(s): | Geoff Walker Director of Strategic Finance | Wards affected: All |
| Report author(s) and contact details: | Shail Shah Head of Internal Audit ☎ 0115-8764245 ✉ shail.shah@nottinghamcity.gov.uk | |
| Other colleagues who have provided input: | | |
| Recommendation(s): | | |
| 1 | <p>To critically appraise the Internal Audit reports at Appendix 1 and 2 to:-</p> <ul style="list-style-type: none"> • Determine whether the service's response was sufficiently proportionate, robust and prompt; • Make any further observations and/or comments considered relevant • Determine any further action. | |

1. REASONS FOR RECOMMENDATIONS

This report presents the reports selected for detailed examination, at the Committee's June 2015 meeting. The Audit Committee's role is to 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.

- **Appendix 1** is the selected Foster Caring and Adoption report
- **Appendix 2** is the selected Budgetary Control report
- **Tables A and B** below summarise the key issues found respectively.

1.1 Summary of 2014/15 Foster Caring and Adoption Report

| TABLE A – Foster Caring and Adoption | | | | | |
|---|---|-----------------------|---|-------------------------|---|
| Reason for audit: The Audit selected was performed as part of the planned Internal Audit coverage. Appendix 1 contains the latest position as reported as part of the 2014/15 Internal Audit Plan. | | | | | |
| Latest level of Assurance : SIGNIFICANT | | | | | |
| <u>Key findings</u> | | | | | |
| The review confirmed a previous audit concern that the Foster Care and Adoption IT system was mainly run through spreadsheets and an in-house database which lacked integration with other departmental systems. However the review highlighted that a procurement process for a new system was underway to not only replace these systems but also other IT systems used by Children and Families. | | | | | |
| Recommendations Update | | | | | |
| Total: | 0 | High Priority: | 0 | Medium Priority: | 5 |
| | | | | | |

1.2 Summary of 2014/15 Budgetary Control Report

| TABLE B – Budgetary Control | | | | | |
|--|---|-----------------------|---|-------------------------|---|
| Reason for audit: The Audit selected was performed as part of the planned Internal Audit coverage. Appendix 1 contains the latest position as reported as part of the 2014/15 Internal Audit Plan. | | | | | |
| Latest level of Assurance : SIGNIFICANT | | | | | |
| <u>Key findings</u> | | | | | |
| The review found that the key controls were operating although there is an on-going issue concerning the way in which budget reports are produced. Whilst this is not an ideal arrangement, plans are being formulated to allow for an on-line reporting for management tool to be utilised by all managers. | | | | | |
| Recommendations Update | | | | | |
| Total: | 0 | High Priority: | 0 | Medium Priority: | 0 |
| | | | | | |

2. **BACKGROUND**

The critical selection of Internal Audit reports by Audit Committee is an important aspect of the Council's governance framework which informs the Committee's understanding of the Council's internal control environment and the levels of assurance being reported by Internal Audit. Issues to consider are:

- 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;
- The actual findings and the impact on the service and the council overall.

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

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

None

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

None

**FINAL INTERNAL AUDIT REPORT
Foster Care & Adoption 2014-15**

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Issue Date: 13th February 2015
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Executive Summary

Introduction and Background

- 1.1 We have reviewed the operation of the Foster and Adoption Payments system as part of the 2014/15 Audit Plan.
- 1.2 The scope of the audit covered the following areas:
 - Follow up on previous recommendations
 - Payments made to foster carers and adopters
 - Verification of adoption rates produced by the City Council
 - Review of means tested assessments
 - Recovery of car loans
 - Debt recovery where overpayments have been generated

Key Findings

- 1.3 The Foster Care and Adoption IT system is mainly run through spreadsheets and an in-house database which interfaces with Oracle in order to raise payments to carers. Concerns have been raised by Internal Audit over a number of years regarding its lack of integration with other departmental systems i.e. Carefirst. It is understood that a tender for a new fully integrated children and adults social care system is to be sent out by December 2014, with a proposed implementation date of April 2016. The new system is expected to not only replace the foster care and adoption database and spreadsheets but numerous other IT systems used by Children and Families.
- 1.4 Foster carers receive an allowance that is set annually by Nottingham City Council. The Senior Finance Officer (SFO) annually receives notification of the new allowance rates and payment data from the Finance Analyst and inputs the rates into the system which is then checked by the Business Manager. Evidence of this check is provided by signed screen prints. A sample of payments made to carers was checked to ensure payments were valid and authorised. No concerns were noted. Although the majority of carers received the approved rate there are a number of carers who receive an enhanced amount due to them transferring from a private agency and the payments being protected. No authorisation could be located to confirm these payments within our sample.
- 1.5 Means tests assessments are performed annually in order to reassess the allowances provided to certain types of carers and adopters. This process involves examining the household income, expenditure, the household make up, and the needs of the child. A formula is used to calculate the allowance payable. For those whose sole income comprises of state benefits the maximum allowance is paid. Testing found that although the assessments appear to have been calculated correctly, no verification of income and expenditure could be found since the supporting documents are returned to the claimant. It was also noted that only two of the means tests could be evidenced as having been checked by the Business Manager.

- 1.6 Interest free car loans have been made to eleven carers since 2007 with four of these carers receiving additional loans. Repayment of these loans is made via deductions from the carers allowance and concerns have been raised in previous audits as to how these loans are being monitored to ensure complete recovery. Testing found that there is still no periodical reconciliation of outstanding loans despite this being recommended in previous Internal Audit reviews. Due to the loans being recovered through deductions in the carers allowance, if the carer takes on a new child and there is a break in the carers allowance, then the deductions are automatically stopped. Of the eleven loans initially made:-
- one had been paid in full.
 - four were currently being recovered through deductions from the carers allowance.
 - five had automatically stopped when the carer had a break in payments and deductions had not been re-instated, it should be noted that on occasions, two years, had lapsed since the deductions had automatically stopped.
 - one loan (£10,000) due to non-recovery by the service area had been raised as a debtor through the Accounts Receivable system and is currently being recovered.
- 1.7 Overpayments can arise when a child moves from a carer during a pay period. These are subsequently repaid through deductions from other allowances, a cheque from the carer or through Accounts Receivable. Previous audits have raised concerns over the lack of monitoring of overpayments and it is pleasing to see that a spreadsheet is now in use for monitoring purposes, although some minor improvements have been recommended in this report.
- 1.8 Testing was undertaken on a sample of overpayments to ensure recovery action had been undertaken. It was noted that in 2 cases although the spreadsheet had been marked as repaid, no evidence could be found of this on the carers account. It was also noted on the spreadsheet that two overpayments had been repaid by cheque, however, no evidence could be found of these being banked by Cashiers.
- 1.9 Payments to foster carers and adopters are essential in ensuring looked after children are properly cared for. It is therefore important that the department has contingencies in place to ensure these payments continue if the SFO is not available. It is understood that while there is partial written guidelines, these do not cover all aspects of the role. It was recommended that these be made comprehensive for every activity performed by the SFO's role.

Opinion

- 2.0 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 **Significant Assurance** on the controls in this area.

Summary of Recommendations

- 3.0 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.
- 3.1 Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

| Priority | Number of Recommendations |
|--------------|---------------------------|
| High | 0 |
| Medium | 5 |
| Low | 3 |
| Total | 8 |

Added Value

- 4.0 In addition to the assurance provided, testing identified overpayment repayments that had been marked as paid but were subsequently found not to have been. These can now be recovered and car loans that were not being recovered.

Responsibilities

- 5.0 Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested
- 5.1 It is expected that management will respond to this draft report within 10 working days of receipt.
- 5.2 Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.
- 5.3 The City Council's Audit Committee review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary. As a consequence we provide details of each final audit and recommendations made. Management may be required to attend Committee or respond to it in relation to actions agreed and taken
- 5.4 Management should note that any recommendations that relate to Financial Regulations must be implemented unless a satisfactory business case has been agreed justifying why the recommendation will not be implemented.

Detailed Findings and Action Plan

| Ref | Finding Risk | Recommendation | Priority | Management Response | Responsibility and Target Date |
|-----|---|---|----------|--|--|
| 1 | <p><u>Means Tests: Supporting documents</u></p> <p>Means testing is undertaken annually for all carers and adopters. Carers are asked to provide evidence of any income and expenditure by way or original documents i.e payslips, mortgage statements etc. Testing found that although the assessments appear to have been calculated correctly, no verification of income and expenditure could be evidenced as the supporting documents are returned to the claimant.</p> <p>Of the sample selected, only two means tests could be evidenced as having been verified by the Business Manager.</p> <p><u>Risk</u> Calculations could not be independently verified.</p> | <p>Copies of all supporting documentation should be retained. Copies should be kept secure with access limited.</p> <p>All means tests should be checked by an independent colleague.</p> | Medium | <p>Scanned copies of documents will be saved into a restricted folder with password protection. Originals to be returned to carers.</p> <p>Process was that if a reassessment resulted in no change then management sign off was not required. This is now amended so all assessments and reassessments are signed off.</p> <p>Folder restricted to SFO and BM</p> | <p>31/01/2015 – SFO/BM</p> <p>Complete</p> |
| 2 | <p><u>Car Loans: Monitoring</u></p> <p>Despite previous Internal Audit recommendations requiring all car loans be reconciled on a periodic basis there is still no reconciliation undertaken. Repayments cease when a carer has a break in fostering and have to be manually reinstated. It was noted that in two cases the repayments had ceased in 2012 and no recovery action has since taken place. A periodic reconciliation would have highlighted this event.</p> <p><u>Risk</u> Repayments may not be made at all or carers may</p> | <p>Loan repayments should be monitored and reconciled on a periodic basis.</p> | Medium | <p>Due to changes from oneworld to Oracle we are unable to reconcile repayments ourselves, however the financial accountant maintains a schedule of repayments. Outstanding loans where a carer has had a break are being restarted and in some cases will be raised as a debtor with agreed monthly payments.</p> | <p>All outstanding loans will be restarted and letters sent re-repayments by 01/04/2015- SFO/BM</p> <p>30/10/2015 - Complete</p> |

| Ref | Finding Risk | Recommendation | Priority | Management Response | Responsibility and Target Date |
|-----|--|---|----------|--|--|
| | over/under pay. | | | Before any new scheme is agreed the process will include repayments will be raised as a debtor. | |
| 3 | <p><u>Car Loans: Recovery</u> A full reconciliation of outstanding car loans was performed to ensure repayments had been made against the appropriate loans. It was noted that in 5 instances the repayments had ceased, however, monies were still owed against these loans.</p> <p><u>Risk</u> Monies owed to the authority are not recovered</p> | Appropriate action should be taken to ensure continual recovery of the outstanding loans. | Medium | As per above | 30/10/2015 - Complete |
| 4 | <p><u>Overpayments: Recording</u> A sample of overpayments was selected from the Overpayment spreadsheet to ensure full recovery action had been taken.</p> <ul style="list-style-type: none"> • 21 overpayments had been recovered satisfactory. • 2 of the cheques received could not be verified as being banked by Cashiers. • 2 of the overpayments recovered could not be evidenced as being deducted from the carer's allowance. <p><u>Risk</u> Cheques may become lost/misplaced and there is no record of who has or has not had them.</p> | The SFO should follow up all queries raised during the overpayment testing and take appropriate action. | Medium | <p>Senior Finance Officer to confirm with cashiers 14 days after sending a repayment cheque that it has been received and cashed.</p> <p>None recovery of 2 overpayments has been corrected and now recovered.</p> | <p>SFO to fully implement system by 01/04/2015</p> <p>Complete</p> |

| Ref | Finding Risk | Recommendation | Priority | Management Response | Responsibility and Target Date |
|-----|---|---|----------|--|--------------------------------------|
| 5 | <p><u>Overpayments: Spreadsheet</u></p> <p>Although a spreadsheet is used for the recording of all overpayments it does not show all relevant information i.e. date of overpayment, date of letter sent to care. Without this information we are unable to evidence that prompt recovery action has taken place.</p> <p><u>Risk</u> A lack of some details may lead to difficulty in organising repayments.</p> | <p>The following extra columns could be added :-</p> <ul style="list-style-type: none"> • Date of overpayment • Date of letter sent to carer • Date of response from carer • Date of cheque received • Date of cheque sent to cashiers • Action taken (if no reply/repayment) | Low | Spreadsheet has been amended | Complete |
| 6 | <p><u>Overpayments: IT Security</u></p> <p>The spreadsheet that records repayments is kept on a shared drive with no password protection.</p> <p><u>Risk</u> This could leave it vulnerable if illegitimate or erroneous changes being made.</p> | Access to the spreadsheet should be limited by using a password. | Low | Password applied and saved in restricted area of J drive | Complete |

| Ref | Finding Risk | Recommendation | Priority | Management Response | Responsibility and Target Date |
|-----|--|---|----------|---|---|
| 7 | <p><u>Contingency: Written Guides</u></p> <p>Written guides to the performing the SFO role are not complete.</p> <p><u>Risk</u> If the current SFO was not available, for example on long-term leave, the department would not be able to perform the role adequately. This could lead to incorrect or missing payments.</p> | Guides should be produced giving comprehensive instructions to performing the activities of the SFO role. | Low | Procedures guides are written and updated annually. | Complete |
| 8 | <p><u>Payments: Protected Payments</u></p> <p>Fostering and Adoption rates are approved annually by NCC. However, there are a number of carers that receive enhanced payments due to them being previously paid by a private agency. No approval could be evidenced for these enhanced payments.</p> <p><u>Risk</u> This could lead to these payments being inappropriate or not in line with regulations.</p> | Protected payments should be reviewed and authorised by the Service Manager annually. | Medium | Protected payments are agreed by Service Manager and Head of Service at the time a carer moves to NCC. These were agreed for the period of caring and therefore would not be reviewed. Existing protected payments were agreed prior to current post holders being in post. | Protected payments reviewed by Service Manager F&A by 28/2/2015 Complete |

Signed  Date - 06/02/2015
Steve Comb
(3rd tier manager or above)

Appendix A – Definitions of Audit Opinion

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.



FINAL INTERNAL AUDIT REPORT Budgetary Control 2014/15

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Distribution List

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| Principal Auditor | Peter Thompson | 64244 |

Executive Summary

Introduction and Background

- 1.1 Internal Audit has reviewed the Budget Monitoring process as part of the 2014/15 audit plan. The agreed scope covered the following:
- The final budget approval from Full Council prior to the commencement of the financial year.
 - The approved budget being loaded onto the Oracle financial system.
 - Budget monitoring procedures and responsibilities in place.
 - Budget variances being monitored and reported to responsible colleagues in a timely manner and reported to Corporate Leadership Team and Executive Board as the financial year progresses. This is the key control, as stipulated by the External Auditor KPMG.
- 1.2 We are aware that Strategic Finance is currently reviewing the budget setting and monitoring process in light of the opportunities offered by the Oracle self-serve process that is being introduced. It is anticipated that this review will offer opportunities to streamline the system and improve the level of information available to management.

Key Findings

Budget Approval

- 1.3 The budget for Nottingham City Council is approved annually at a meeting of Full Council. We have reviewed the minutes of the meeting on March 3rd 2014 and found that the Council approved the 2014/15 budget.

Budget Load

- 1.4 We have checked that the budgets on Oracle and found that they agree with the City Councils approval.

Budget Reporting

- 1.5 Pivot table reports are produced on a regular basis and distributed to Heads of Service and budget holders, however, a budget management self-service option has recently become available via the Oracle system. A pilot of this is new option currently being tested with colleagues in Parking Services. We understand that from the beginning of next year, all Heads of Service will benefit from this new option.
- 1.6 We reviewed the reporting arrangement to the Corporate Leadership Team (CLT) and the Executive Board. The first budget report submitted to CLT and the Executive Board took place in September 2014. A CLT report has been drafted covering the period up to Period 9 and a report to the Executive Board was being drafted at the time of our review.
- 1.7 Both the CLT Report and the Executive Report show the best and worst case scenario's and actual position. Also identified are the reasons for variations together with the explanations and mitigations for the over and underspends.

Opinion

- 1.8 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 **Significant Assurance** on the controls in this area.
- 1.9 Our review found that the key controls were operating although there is an on-going issue concerning the way in which budget reports are produced. Whilst this is not an ideal arrangement, plans are being formulated to allow for an on-line reporting for management tool to be utilised by all managers.

Added Value

- 1.10 This report has not highlighted any failures within the key controls because they appear to be operating as intended. There are planned improvements that will take effect next year that should improve the level of control within the budget management process.

Responsibilities

- 1.11 The City Council's Audit Committee review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary and we provide details of each final audit and recommendations made. Management may be required to attend Committee or respond to it in relation to actions agreed and taken

Appendix A – Definitions of Audit Opinion

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.