



Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2016-17 March 2017

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Our audit activity is split between:

- Operational Audit
- Key Control Audit
- Governance, Fraud & Corruption Audit
- IT Audit
- Special Reviews

See Appendix A for individual audits

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 23 March 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- School Themes
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Director of Resources (Section 151 Officer) following consultation with the Senior Management Team. This year's (2016/17) Plan was presented to this Committee on 23 March 2016.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

The summary of the Annual Plan for 2016/17 (Appendix C) highlights progress to date. Based on the findings of each review, an overall control assurance is offered. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Risk Levels, please refer to [Appendix 'B'](#).

It is important that Members are aware of the status of audits as this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

As can be seen from [Appendix 'C'](#), the following audits have been progressed to date:

Operational:

- Completed, 12 reviews (1 substantial, 6 reasonable, 4 partial, 1 advisory)
- Draft Report - 1 reviews
- In Progress, 12 reviews
- Removed - 7 reviews

Governance, Fraud and Corruption:

- Completed - 1 review

Follow Up Reviews:

- Completed - 8 reviews
- In progress - 3 reviews
- Not started - 1 review

Update 2016-17

Completed Audit Assignment in the Period

Audit Plan Progress

Special reviews:

- Completed - 2 reviews

School Themes –: SFVS – Schools Financial Value Standard

- Completed, 6 schools (3 partial, 3 reasonable)

Key Control:

- Completed – 2 reviews (1 partial, 1 reasonable)
- Draft Report – 2 reviews
- Discussion Document – 2 reviews
- In Progress – 2 reviews

Grants:

- Complete - 3 claims
- Not started - 1 claim
- Removed - 1 claim

Completed Audit Assignments in the Period

Audit Plan Progress

Audits completed to final report since my last update are:

Operational

- Recruitment Contracts - Partial
- Public Health Contracts – Reasonable
- Property Services - Accounts Payable – Advisory
- Food Safety – Reasonable
- Protection from Malicious Code – Reasonable
- Performance Management Framework – Reasonable
- S106 Agreements – Reasonable

Key Control

- Housing & Council Tax Benefits – Partial
- Capital Accounting - Reasonable

Follow Up

- Use of Agency
- Changes to Role & Exit - ICT Access Controls
- Licensing
- Mobile Phone Usage
- Direct Payments
- NNDR

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Report on Significant Findings

Where a review has a status of 'Completed' and has been assessed as 'Partial' or 'No Assurance' or with a 'High' corporate risk, I will provide further detail to inform Members of the key findings (Priority 4 and 5) identified. For the audits completed since my last report two audits – Recruitment Contracts and Housing and Council Tax Benefits have been assessed as Partial assurance (some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives). In addition, there was one priority 4 finding in the Public Health Contracts audit which was assessed as Reasonable.

None were assessed to have a 'High' corporate risk.

The full detail of each significant finding and the agreed management action and implementation is detailed on pages 13-16.

Recruitment Contracts – Partial

The Council is a large employer and recruits staff to provide management and operation of its services. Contracts are provided to employees which outline employee benefits and terms and conditions of their employment. As part of the recruitment process, where positions in specific service areas require specialist expertise, the Council offers a number of inducements which include Market Forces Supplement, Relocation Expenses and Welcome Payments.

The objective of the audit was to ensure that the use of formally approved, standard employee contracts are routinely issued to officers that are recruited, and only by exception when a business case is made, authorised variations to those standard contracts and/ or recruitment inducements are made and to ensure that employees do not receive more benefits than they are contractually entitled.

There were no priority 4 findings but ten priority 3 findings resulting in the partial assurance opinion. Weaknesses were found in:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

- Authorisation of employment contracts – apart from school’s employment contracts, which were signed by the Director for Children’s Services; some contracts were signed by the HR Officer rather than the appropriate council officer.
- There were instances where Market Forces Supplement payments were processed without the authorisation of a completed form, outlining the business case for this award.
- Relocation expenses payments are processed through the Council’s Creditors payments, instead of the HR payroll system, which means that all taxable benefits for expenses paid are not maintained in one reporting system.
- We found two cases where returnable accommodation rental deposits were paid to employees, which should had been recovered when those members of staff left the Council, or changed address.
- There is no Council policy for making Welcome Payments, or a policy which provides guidance on the varying types of inducements that could be offered to prospective recruits.
- Welcome payments were made as a lump sum in advance, rather than a staged payment, which means that if the employee leaves the Council shortly after joining, deduction of monies due often is greater than the employee’s final pay, leading to a potential for non-recovery.
- In a sample review, we found that monies were not recovered from employees that had either left or been dismissed from the Council, who had received Welcome Payments, and Relocation expense payments.
- There is no process in place within payroll or HR to monitor and control the appropriate recovery of any Welcome Payment and/ or Relocation expenses from leavers.

Whilst the payments not recovered were not significant the Council should ensure that adequate controls and monitoring is in place to ensure appropriate recovery action.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Housing and Council Tax Benefit - Partial

A partial assurance was provided due to the number of outstanding recommendations from the Housing and Council Tax Benefits 2014-15 audit report issued 05 August 2015 where nine recommendations were made. The progress of these recommendations was reported in the Housing and Council Tax Follow Up audit report issued 21 December 2015, where three recommendations were deemed complete, three were in progress and three were not yet due.

This year's audit identified a total of four priority 3 recommendations remain outstanding from last year's Housing and Council Tax Follow Up Report. Therefore, limited progress has been made in implementing the recommendations made in the 2014-15 audit.

The outstanding recommendations from 2014-15 are:

Recommendation	Implementation Date	Revised Implementation Date
I recommend that the Revenues and Benefits Service Manager organises a review and update of those procedures held by Housing Benefits staff (Benefits Operational Manager, Quality Officer, and the Senior Team Leader - Finance). The dates of review / planned future review, version number, screenshots from the Academy system should all be included within the documents.	31 March 2016	31 December 2017
I recommend that the Quality Officers Officer create procedures to cover the review and correction of imbalances between the HB and Council Tax modules on Academy. These should be completed prior to the handover of the task, to provide guidance on methods of identifying the differences between the two modules, thus leading to a more efficient process within the new team structure.	31 March 2016	31 March 2017
I recommend that the Revenues and Benefits Service Manager ensures that guidance documents for Housing and other related benefits, published on the Herefordshire Council website, show the date that they were written or updated.	31 March 2016	31 January 2017
I recommend that the Housing Benefits Team Leader liaises with the Assistant Accountant in respect of the current list of unrepresented Housing Benefits cheques and, where it is economical to do so, cancel at the bank all those that were generated prior to the current financial year. These cheques should also be cancelled on Academy. I also recommend that the Housing Benefits Team Leader creates a procedure, to review and deal with unrepresented cheques not cashed within a specific timescale.	31 March 2016	30 June 2017

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Public Health Contracts – Reasonable

The Health and Social Care Act 2012 transferred responsibility for public health improvement to the Council in April 2013; this service can be delivered through the activities of the dedicated Public Health team, or through activities of other Council departments. Funding is provided largely via the public health grant.

The scope of the audit was to review a selection of contracts administered by the Public Health Team in conjunction with the Commissioning Team: Adults Wellbeing Directorate. The focus was on the smaller contracts as there is a monitoring structure in place around the larger higher profile contracts but this is not the case for smaller contracts.

There are issues that need to be addressed around the monitoring of the contracts reviewed, as there is minimal contact with the providers on an ongoing basis and no supporting information is requested from them or drawn from the Pharmoutcomes website. While it is acknowledged that there is a reduction in staffing resources available following the Commissioning (AWB) restructure, with the focus on higher value / higher profile contracts, smart levels of monitoring should be adopted by requesting information from the service providers, which at the same time should aim to focus provider attention on the services as a means to encouraging improvements in service provision. Relevant management information from the service provider is the foundation to achieving a positive outcome to service delivery.

There was one priority 4 finding:

Services to be provided are documented in the contract specifications for both Stop Smoking and Pharmacotherapy contracts however there is no evidence that this is complied with by the contractors. The contractors have not been requested to provide any evidence of services provided; there are no KPIs for Pharmacotherapy contracts, and although there are some targets in the quarterly report template for Behavioural Support contracts, these reports are not requested and no individual KPIs have been set for each provider.

By setting some minimum targets for these contracts or similar in future, it may serve to focus attention on the contract and thus improve results against overall targets.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

Follow Up audits

The purpose of the follow up audit is to provide assurance to the Director, Senior Managers and the Audit and Governance Committee, that the agreed actions to mitigate risk exposure have been implemented.

Six follow up audits have been completed; the table below is a record of progress against recommendations.

Audit	Categorisation of Recommendations	Complete	In Progress	Not Complete	Not Yet Due
NNDR	Priority 3	5	1	0	0
Use of Agency	Priority 4	5	1	0	0
	Priority 3	7	0	0	0
Mobile Phone Usage and Strategy	Priority 4	8	2	0	0
	Priority 3	1	1	0	0
Licensing	Priority 4	2	1	0	0
	Priority 3	9	1	0	0
Direct Payments	Priority 4	0	1	1	0
	Priority 3	3	3	2	0
Changes to Role and Exit – ICT Access	Priority 4	3	0	0	0
	Priority 3	4	1	0	0

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Added Value

Primarily, Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

SWAP has completed the following comparison reviews:

- Audit Committee Workplans
- Equality Impact Assessment process comparison
- Fees and Charges
- Cyber Security Awareness – Best practice
- Partnering and Voluntary Organisation benchmarking

Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested through the Director of Resources (Section 151 Officer).

No further work has been requested since my last update.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Future Planned Work

As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Director of Resources (Section 151 Officer) with removal or deferral of audits to be formally agreed by the Audit Committee.

In agreement with the Business Partner three additional audits have been added to the plan - Continuing Healthcare Funding, Troubled Families, and Integrated Short Term Support and Care Pathway. Additional days have also been agreed for further work on Concessionary Fares.

Four audits - Hospital Discharges, Nottingham rehab contract review, Contracts and Contract Management and Complex Care LD have been removed at the request of the Director of AWB. Most of these areas will be picked up in the work planned for Integrated Short Term Support and Care Pathway with the remaining days used for Continuing Healthcare Funding, Troubled Families and Concessionary Fares.

I propose that the Committee agrees the removal of Hospital Discharges, Nottingham rehab contract review, Contracts and Contract Management and Complex Care LD Business Partner from the 2016-17 audit plan.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Conclusion

Since my last update fifteen audits have been completed which includes six follow up audits. Where low to medium control or administrative weaknesses are identified normal expectation is for reviewed areas to be assessed into the 'Reasonable' category of assurance. However, where the assessed area falls below 'Reasonable', management is expected to address the risks identified as a matter of priority and monitor their progress against the agreed action plan. Of the fifteen audits completed two have been assessed as Partial assurance and the significant findings have been reported in the table below. Six have been assessed as reasonable assurance and one is an Advisory review. The remaining five are follow up audits and of the 62 recommendations 47 have been assessed as complete. Where a recommendation is either in progress or not complete a revised implementation date has been provided by the responsible officer.

Members can take assurance that all recommendations have been agreed by management with agreed target dates for completion. Internal Audit will also complete a follow up review on all Partial assurance audits in 2017-18.

At the end of each audit review, a Customer Satisfaction Questionnaire is sent out to the service manager or nominated officer. The aim of the questionnaire is to gauge satisfaction against timeliness; quality; and professionalism. As part of the Balanced Scorecard presented to the SWAP Management Board, a target of 80% is set where 75% would represent a score of good. The current accumulative feedback for Herefordshire Council is 84%.

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Public Health Contracts					
<p>Priority 4 - Levels of service cannot be predicted by the Council, making it difficult to earmark funds effectively within the budget setting process. Service provision may not aid the Council in meet the required Department of Health targets. Funding could be used to better effect elsewhere if service provision for a particular project is poor.</p>	<p>Minimum targets were not specified in either the Stop Smoking Behavioural Support or Pharmacotherapy contracts, therefore putting the council in a weak position to provide meaningful challenge on a poor outcome. Coupled with minimal contract management service levels may be unacceptable but not identified.</p>	<p>The Director of Public Health has agreed to endeavour to negotiate a minimum target for the contracts that are to remain in place for Stop Smoking Behavioural Support and Pharmacotherapy contracts. KPIs should be written into all contracts in future, along with minimum levels of service provision, and failure to meet these standards constituting the right for the Council to terminate the contract.</p>	<p>Minimum targets will be established with each Qualified Provider. These will include KPIs appropriate to the specific provider and linked to the population groups that they have be requested to target. These measures will be in place for 31st March 2017.</p>	<p>31 March 2017</p>	<p>Director of Public Health</p>