

Appendix 2a: Other Audits and Grant Claims

Payroll query, January 2016 Audit Committee

External Audit noted in its Annual Audit Letter a significant deficiency in internal control in relation to payroll amendments, which had previously been identified and reported by Internal Audit. An update on this was requested for the March 2016 Audit Committee.

Current status

To address the deficiency in internal control identified by Internal and External Audit, the payroll amendment process is going to be automated, which will introduce an enforced, electronic segregation of duties. The intended timeframe for introducing this functionality will be the 30th September 2016. In the interim, the process has been reviewed and additional checks have been introduced at month-end to identify potentially erroneous or fraudulent payments.

Payroll Improvement Project

Objective

To provide 'an independent challenge' as the controls within the new 'Milestone 4' Agresso module are being developed and implemented (particularly in respect to the system weaknesses highlighted in the 2014/15 Payroll report).

Current status

The ability for staff to input their own expense claims into Agresso (the general ledger system) is under development. The effectiveness of this new functionality will be tested in the 2016/17 Payroll audit. However the preparatory development work has been reviewed and appears to be comprehensive, well-evidenced and clear. It can be concluded that reasonable steps are being taken to:

- reduce the risk of material error and fraud
- address the system weaknesses highlighted in the 2014/15 Payroll report specific to this module.

Computer-Assisted Audit Techniques (CAATs)

Background

Computer-assisted audit techniques (CAATs) are the use of computers and specialised data analysis software to automate audit testing and allow for a deeper analysis of large data sets. Under the right circumstances they allow auditors to:

- **increase coverage by automating testing.** So, for example, this can be used to confirm that every entry within a vast database complies with certain requirements, rather than only testing a small sample of entries manually
- **focus their audit sampling.** An example of which would be using CAATs to identify entries within a database that appear unusual or unexpected. These items could then be included in standard audit tests to ensure that a thorough analysis has been conducted

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- **analyse data to provide supporting evidence for test findings.** So, for example, by evaluating corresponding financial information, monetary values can be attributed to specific audit findings, making risks to the Council more tangible to the final report user.

Work completed

CAATs have been used this year in the Accounts Payable and Payroll financial systems audits. Examples of CAATs tests that have been performed are outlined below:

Accounts Payable

- A list of all purchases made by the Council in 2015/16 to date was produced. Each purchase was compared against the Council's Scheme of Delegation and list of approved substitutes, to confirm that purchases had been authorised appropriately.

This test allowed Internal Audit to quickly and easily confirm that at least 70.5% of all purchases made were authorised appropriately. Detailed testing was then focused on the remaining 29.5% of purchases with more complicated authorisation routes (e.g. where a member of staff's substitute or their authorisation limit have changed during 2015/16).

Payroll

- A list of all staff expense and overtime claims in 2015/16 to date was produced. This information was then organised to show the total value and volume of claims received by each individual member of staff.

A number of staff in receipt of the most / highest value expenses and overtime claims were included in the audit sample to confirm the appropriateness of these claims.

Any findings or results of this testing will be individually reported in each of the respective key financial system audit reports.

Southend City Deal Grant

Purpose of funding

To increase the rates of entrepreneurship and innovation within the Borough, by developing an 'incubator space' for small businesses and new start-ups in the local area.

Objective

To provide reasonable assurance that the invoices submitted by the Council for claims and authority costs fairly represent expenditure under the Scheme made in accordance with the terms and conditions attached to the funding.

Opinion: Unqualified.

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Extended Troubled Families programme, Payments by Results Scheme

Objective

To critically challenge and support the verification and validation processes being developed and agree the evidential arrangements that will ensure compliance with Department of Communities and Local Government's (DCLG) Extended Financial Framework for making Payments by Results (PBR) Claims.

Background

The extended Troubled Families programme requires:

- all councils to produce a Family Outcome Plan detailing how the six headline areas to be covered by the extended PBR scheme, are to be addressed and measured
- Internal Audit to work with Troubled Families to “jointly agree the evidential expectations required to claim results” detailed in Family Outcome Plans.

The Streets Ahead team (the team) is also reviewing its business processes and IT arrangements for data collection, monitoring, and reporting to improve its overall efficiency, and ensure accurate PBR claims are made.

Themes

The Family Outcome Plan now details all the evidential expectations required to claim a PBR outcome under each of the six headline areas. Internal Audit will continue to work with the team to develop this further as new issues affecting families emerge.

For example, it was agreed after the audit of the January 2016 claim that the indicators for identifying families under the headline “Adults and young people out of work or at risk of financial exclusion”, would be extended to include families at risk of homelessness as a result of landlords selling properties. Currently this headline only covers families with the threat of eviction for rent arrears. The team report this to be a growing problem.

Internal Audit has given feedback on the development of new IT arrangements to automate the evidencing and monitoring of PBR outcomes. However changes in the DCLG’s national reporting requirements, has delayed the full implementation of the new IT ‘database’. As such, expected efficiencies in the arrangements for auditing PBR claims have not been realised during 2015/16.

Internal Audit has recently been notified that the ‘database’ has now been finalised and the new arrangements are to be demonstrated by the end of March 2016. In line with the DCLG’s Financial Framework, management is also introducing a quality assurance process of all cases, to confirm entry and exit criteria can be sufficiently evidenced.

It is expected that the new arrangements described above will be fully operational by the time of the next PBR claim in September 2016.

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Troubled Families Programme, Payments by Results Scheme Grant

Objective

To assess compliance with the terms and conditions of the Department for Communities and Local Government's (DCLG) Financial Framework for making Payment by Result (PBR) claims under the Expanded Troubled Families Programme (Phase 2).

Background

The Financial Framework requires that Internal Audit verifies a 10% representative sample of PBR claims before they are made to ensure there is supporting evidence to confirm families:

- met the required criteria to be considered for entry to the expanded Troubled Families Programme
- have achieved either continuous employment or significant and sustained progress as defined by the Council's agreed Outcomes Plan.

Larger sample sizes may be required for smaller claims in order to ensure the audit is meaningful.

Opinion: January 2016, partial sign off of the claim.

This was the second PBR claim to the DCLG under the new expanded programme.

As such, in line with the September 2015 claim, protocol arrangements adopted under Phase 1 of the programme were used to validate the accuracy of the claim.

Of the 32 claims due to be made eight were randomly selected for audit (this included two of four claims signed off by the Group Manager).

With regard to those audited, there was evidence to confirm six of the eight families met the:

- eligibility criteria for entry to the expanded programme; and the
- criteria for making a PBR claim as there was sufficient evidence to confirm:
- continuous employment or
- significant and sustained progress had been achieved, as defined by the Council's agreed Outcomes Plan.

The above included one claim which Internal Audit proposed should be submitted as an exceptional case under Principle 3 of the new Financial Framework. Significant and sustained progress could be confirmed in all but one of the headline areas, i.e. school attendance. The Outcome Plan requires a child's attendance "to be a minimum of 90% inclusive of authorised absence".

School attendance improved over the time the team worked with the family from 74% to 86%. It was clear from evidence submitted that attending appointments during school time for an underlying medical problem had meant that the required 90%

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attendance rate could not be met. These circumstances met the criteria for an exceptional case.

Of the remaining two cases, both were withdrawn as there was insufficient evidence to:

- confirm the entry criteria had been met under one of DCLG's two headline issues in one case
- support significant and sustained progress for one child in another family who had initially been identified with poor attendance at school and had transferred to college during the time the team worked with the family. The PBR evidence available for the child did not meet the required school attendance outcome and attendance issues raised by the college negated the outcome required for "young people post-16 years attending education, employment or training".

A number of the families included in this claim had been working with the team since Phase 1 of the programme, before Phase 2 arrangements were fully developed. This has contributed to the issues identified above and claims being withdrawn. These issues should not arise again as the team anticipate the next claim in September 2016, will only include new cases started in Phase 2. In addition, the quality assurance processes being developed (see above) should ensure only valid claims are presented for audit in the future.