

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	ARGYLL & BUTE HEALTH & SOCIAL CARE PARTNERSHIP
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	REVIEW OF CHILDREN'S UNITS
AUDIT DATE	OCTOBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Children's Units within the Health and Social Care Partnership as part of the 2016-17 Internal Audit programme.

Residential care homes offer young people a safe place to live away from their families. Residents live alongside a number of other young people in the home and are cared for by staff who stay but do not live on site. Most young people who live in a residential establishment will have been assessed as needing to be cared for away from home by the local authority. Young people are placed in residential care on the recommendation of a Children's Hearing Panel, or on an emergency (short-term) basis to guarantee their safety.

These establishments provide accommodation and support to all residents and are inspected by the Care Inspectorate to ensure they meet national standards.

Argyll and Bute Council operates 3 Children's Homes, all of which have received a grade of "Very Good" from the Care Inspectorate:

- Dunclutha Children's Unit is located in Dunoon although it may service children from any area within Argyll and Bute. It has a capacity for 6 young people and currently serves as home for 4 between the ages of 14 and 16. The unit is run by a house manager supported by 2 Senior social care workers, 7 full-time, 3 part-time and a pool of 5 bank social care workers, there is also catering and domestic staff. The 2016-17 budget allocation for Dunclutha Children's unit is £528k.
- Shellach View Children's Unit is located in Oban although it may service children from any area within Argyll and Bute. It has a capacity for 6 young people and currently serves as home for 2 between the ages of 12 and 17. The unit is run by a house manager supported by 2 Senior social care workers, 5 full-time, 5 part-time and a pool of 6 bank social care workers, there is also catering and domestic staff. The 2016-17 budget allocation for Shellach View Children's unit is £483k.
- East King Street Children's Unit is located in Helensburgh although it may service children from any area within Argyll and Bute. It has a capacity for 6 young people and currently serves as home for 5 between the ages of 12 and 17. The unit is run by a house manager supported by 2 Senior social care workers, 6 full-time, 2 part-time and a pool of 15 bank social care workers, there is also catering and domestic staff. The 2016-17 budget allocation for East King Street Children's unit is £471k.

Children's Units are included within the Quality and Financial Plan of the Health and Social Care Partnership. The 2016-17 plan was approved at the Integration Joint Board Meeting held in March 2016. Unit Development Plans include management of resources as governed by the Council's Financial and Security Regulations. All officers have a general responsibility for taking reasonable action to provide for the security of the assets under their control, and for ensuring that the use of resources is legal, is properly authorised, provides value for money and achieves best value.

2. AUDIT SCOPE AND OBJECTIVES

The objective of the audit was to assess controls in place to manage Council resources and provide assurance of compliance with the Council's Financial and Security Regulations.

Internal audit reviewed policies and procedures in place and undertook visits to the units to assess evidence of compliance with the Financial and Security Regulations including: budget monitoring and control; administration of client funds, allowances and birthday money; purchasing practices; and inventory control.

Controls included:

Authority –	Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
Occurrence –	Sufficient documentation exists to evidence compliance with the Financial and Security Regulations
Completeness –	Policies and procedures are aligned to the Financial and Security Regulations and all required documentation is accurately and fully maintained
Measurement –	Policies and procedures are in line with requirements of Financial and Security Regulations
Timeliness –	Policies and procedures are regularly reviewed and updated as necessary
Regularity –	Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

Audit Risk – Non-compliance with the Council's Financial and Security Regulations

4. AUDIT OPINION

The level of assurance given for this report is Substantial.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Imprests

Paragraphs 7.30 – 7.36 of the Council's Financial and Security Regulations covers the imprest process. All imprest accounts should be maintained in accordance with guidance issued by the Head of Customer and Support Services in consultation with the Head of Strategic Finance. This guidance sets out in detail the responsibilities of the imprest holder and the general administration of the imprest account including requests to increase or decrease the imprest level, closing an imprest account and completion and submission of claim forms. In undertaking this audit, internal audit reviewed controls in place to test compliance with this guidance.

Internal audit found that the imprest process in each of the 3 units was operating effectively and was compliant with the guidance issued.

- Imprests were found to be required by all 3 children's units for the purpose of defraying petty cash and other expenses including pocket money and recreation/clothing allowances for young people.
- Bank accounts were held by all 3 children's units for the purpose of reimbursement of imprest, all accounts were found to hold a credit balance at the time of review, however, it was found that there are no bank statements received by Dunclutha as the account is operated via a passbook.

- All items of expenditure claimed through the imprest accounts were supported by authorisation vouchers and receipts where possible.
- All 3 units were familiar with the standard imprest guidance provided by the Head of Customer and Support Services although only one of the 3 units had a copy of the guidance available at the time of the visit.
- All 3 units had arrangements in place for continuity of imprest availability in the imprest holders absence, however, imprest claim values were generally in excess of the agreed authorisation limits of the deputies in 2 of the 3 units.
- Each of the 3 Units have allocated budget for Birthday and Christmas allowances for the young people. All Birthday and Christmas expenditure is claimed back via the standard imprest procedure and receipts are retained as evidence of the expenditure.

Administration of Client funds

Paragraph 5.23 of the Council's Financial and Security Regulations states that "Any person who, by virtue of employment with the Council, is responsible for the custody or management of cash or property belonging to a third party will, in so doing, employ standards of stewardship no less than those laid down in these Regulations and elsewhere for cash and property belonging to the Council."

It was found in each of the 3 units that appropriate controls are in place and records are kept in relation to administration of client funds.

- Children's Units provide young people with pocket money on a weekly basis; the value is dependent upon their age. All payments to young people were found to be accurately recorded with both the officer and the young person's signature recorded as evidence of issue.
- All young people are encouraged to open individual bank accounts and are encouraged to save from their pocket money, Education Maintenance Allowance (EMA) or earnings of older residents. The unit also offers a facility to hold savings in the office safe for young people; this is fully documented with lodgings/withdrawals signed for by both unit staff and young person.

Purchasing Practices

Paragraphs 7.7 – 7.12 of the Council's Financial and Security Regulations covers procurement including manual and electronic orders and use of purchase cards. The Financial and Security Regulations state that "All procurement of works, goods, and services will be in terms of the Contract Standing Orders, the Council's Procurement Strategy and guidance provided by the Executive Director - Customer Services". This guidance was broadly followed.

It was found in each of the 3 units that controls are in place although some weaknesses were identified:

- PECOS (Professional Electronic Commerce Online System)
 - It was found that staff in 2 of the 3 units are using PECOS to order goods. East King Street made good use of PECOS, Shellach View made very limited use of the system and continue to raise manual orders with suppliers who are available on PECOS and Dunclutha have no access to the PECOS system.
 - Of the 2 units that utilise the PECOS system, staff in only one unit has undertaken formal online training. Although no significant weaknesses have been identified in the use of PECOS, consideration should be given to organising training across the units to ensure use of PECOS is optimised.
- Purchase Cards
 - Managers within each of the 3 units have been allocated purchase cards. The cards were retained safely and securely within each unit, however, internal audit were advised that cards are made available for use by other senior members of staff in the absence of the unit manager. This contravenes instructions provided by Creditors section upon provision of the Purchase Card where users are advised not to share.
 - All 3 units have experienced issues in the use of their purchase cards where transactions are frequently blocked and require to be released by Creditors via liaison with bank. Internal Audit have been advised that continued liaison between Children's units and creditors will reduce the impact of the issue through time.

- Manual Orders

- There were no controls in place to ensure that the same person cannot be responsible for ordering, receiving and payment of goods in any of the 3 Units. Good practice dictates that adequate segregation of duties should be in place to prevent erroneous or inappropriate practice.

Inventory Control

Paragraph 5.2 of the Council's Financial and Security Regulations states that "Inventories will be maintained on a continuous basis by all Services and these will contain an accurate description of furniture, fittings and equipment, plant and machinery. The extent to which property of the Council will be recorded and the form in which inventories will be kept will be determined by the appropriate Executive Director in consultation with the Head of Strategic Finance."

Controls are operating effectively at Shellach View, however, there are no controls in place to ensure inventories are kept and maintained at Dunclutha and East King Street.

- Inventories of Council property were not maintained within Dunclutha and East King Street Units.

Budget Monitoring and Control & Virement

Paragraphs 3.11 – 3.18 of the Council's Financial and Security Regulations covers Budget Monitoring and Control and Virement. Budget monitoring guidance is available on the shared drive for Strategic Finance Staff. There is also an e-learning module available within the Council's LEON learning system. The Council's financial ledger system is made up of cost centre and account codes with a designated budget holder, finance contact and operational contact for each cost centre where appropriate. All Cost centres are assigned an engagement frequency in line with its risk rating and logs are required to be completed following meetings between budget holders and finance contact.

Virement is the process of transferring budget between cost centres, services or department or between capital projects. The Financial and Security Regulations outline the levels of authorisation required to exercise a virement.

- Each unit has designated cost centres with budget responsibility assigned to Locality Managers and unit managers as operational contacts, all 3 units have the same Finance Contact.
- For all 3 units, budget monitoring takes place with the designated contact within the required frequency of every 2 months. This was evidence through review of engagement logs and minutes of meetings
- It was noted that for this financial year there was one virement of budget between cost centres over £25k. As per the financial and security regulations this virement must be approved by the Executive Director. It was noted that appropriate authorisation was received for this virement. This approval contained the Chief Officer's electronic signature, however, it was received via an email from the Chief Officers PA. To provide a secure audit trail authorisation via electronic signature should come directly from the Chief Officer's inbox.

6. CONCLUSION

This audit has provided a Substantial level of assurance as internal control, governance and the management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk. There were 9 findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 7 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Children's Units staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating: High or Medium	Agreed Action	Responsible person agreed implementation date
1. Shared Purchase Cards				
Purchase cards are made available for use by other senior members of staff in the absence of the unit manager	Failure to ensure Purchase Cards are used in accordance with instructions may lead to loss, damage or inappropriate use resulting in financial loss or challenge	High	Unit managers will cease practice of sharing card. Where appropriate, senior members of staff will be issued with their own Purchase Cards.	Locality Manager, Dunoon 31 December 2016
2. Authorisation Limits				
In 2 of the 3 units the imprest claim values were generally in excess of the agreed authorisation limits of the staff nominated to cover for imprest holders during absence.	Failure to have adequate authorisation levels in place may lead to imprest claims not being processed in a timely basis.	Medium	Consideration will be given to a review of the authorisation limits to ensure that staff deputising for imprest holder have sufficient authorisation to sign off claims.	Locality Manager, Oban 31 January 2017

Findings	Risk Impact	Rating: High or Medium	Agreed Action	Responsible person agreed implementation date
3. PECOS				
Only 2 of the 3 units currently use PECOS and staff in only one of these units has received formal online training.	Failure to utilise PECOS system may lead to loss of efficiencies gained through collaborative purchasing arrangements.	Medium	Consideration will be given to organising training to ensure greater utilisation of PECOS across the 3 units.	Business Improvement Officer 28 February 2017
4. Segregation of Duties				
There were no controls in place to ensure that the same person cannot be responsible for ordering, receiving and payment of goods in any of the Units.	Failure to ensure adequate segregation of duties may lead to erroneous, inappropriate behaviour resulting in financial loss or challenge.	Medium	Process will be reviewed to ensure adequate segregation of duties	Unit Manager, Shellach View 28 February 2017
5. Inventories				
2 of the 3 units did not maintain inventories of Council property, the remaining unit maintained a detailed inventory.	Failure to maintain accurate and complete record of Council owned property may lead to poor asset management.	Medium	Consideration will be given to ensure consistent practice in the use of inventories and to the level of detail as to which these should be maintained.	Unit Manager, Dunclutha 28 February 2017

Findings	Risk Impact	Rating: High or Medium	Agreed Action	Responsible person agreed implementation date
6. Electronic Authorisation				
The virement approval document was electronically signed by an appropriate officer, however, this was received via email from an unauthorised member of staff	Failure to ensure that records are transferred securely may result in erroneous or inappropriate practices	Medium	To provide a secure audit trail authorisation via electronic signature should come directly from the inbox of the appropriate officer.	Locality Manager, Helensburgh 31 March 2017



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