NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

8 MARCH 2012

INTERNAL AUDIT WORK AND RELATED INTERNAL CONTROL MATTERS FOR THE CHIEF EXECUTIVE'S GROUP

Joint Report of the Chief Executive and the Head of Internal Audit, Veritau Ltd

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1.0 **PURPOSE OF THE REPORT**

1.1 To inform Members of the **internal audit work** performed during the year ended 31 January 2012 for the Chief Executive's Group (CEG) and to give an opinion on the systems of internal control in respect of this area.

1.2 To consider the **Statement of Assurance** for 2011/12 signed by the Chief Executive.

1.3 To consider the **Risk Register** for the Group.

2.0 **BACKGROUND**

2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the Chief Executive's Group the Committee receives assurance through the work of internal audit (as provided by Veritau Ltd), details of the Statement of Assurance provided by the Chief Executive, the Group's Risk Register and the progress made to date by management to address the areas for improvement and the identified risks.

2.2 Accordingly there are three Appendices to this report:

Appendix 1

A summary of the **internal audit reports** issued in final in the year since the last report on CEG to the Audit Committee in March 2011. Specific attention is drawn to any Priority 1 agreed actions that management have chosen not to implement.

Appendix 2

The relevant extract from the **Statement of Assurance** provided at the 2010/11 year end by the Chief Executive detailing the issues identified and the proposed actions to be undertaken during 2011/12.

Appendix 3

A copy of the current **Risk Register** and the proposed actions to manage these risks.

2.3 The Risk Prioritisation System used to derive all Risk Registers across the County Council categorises risks as follows:

- Category 1 and 2 are high risk (RED)
- Category 3 and 4 are medium risk (AMBER)
- Category 5 and 6 are low risk (GREEN)

These categories are of course relative not absolute assessments - equally the Risk Register at Directorate level is designed to identify the dozen or so principal risks that may impact on the achievement of performance targets etc for the Group as a whole in the year – it is not a full Register of all the risks that are managed in the Group.

3.0 **WORK DONE DURING THE YEAR ENDED 31 JANUARY 2012**

3.1 Detail of the work undertaken for CEG and the outcome of those audits is provided in **Appendix 1**.

3.2 Veritau has also been involved in a number of other areas of work in respect of CEG. These have included:

- offering input and guidance on matters relating performance management

- carrying out a number of special investigations that have either been communicated via the whistleblowers' hotline or have arisen from issues and concerns raised with Veritau by CEG management

3.3 As with previous audit reports an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified.

3.4 The opinions used by Veritau are provided for the benefit of Members below:

High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control

environment is in operation but there are a number of improvements that could be made.

Limited   Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.

No Assurance   Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

3.5   The following categories of opinion are also applied to individual actions agreed with management:

Priority 1 (P1) – A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.

Priority 2 (P2) – A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.

Priority 3 (P3) – The system objectives are not exposed to significant risk, but the issue merits attention by management.

3.6   It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau now formally follow up all agreed actions on a quarterly basis, taking account of the timescales previously agreed with management for implementation. **On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.**

3.7   All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk are reviewed less often and in our experience continue to be satisfactory between audits. Veritau's audit work is focussed on the higher risk areas. Veritau officers work closely with the CEG to address any areas of concern. The scope of many audits means that a large number of processes are reviewed with many of these being found to be satisfactory or better. In a number of the audits listed in **Appendix 1**, however, specific weaknesses were identified which need to be addressed.

4.0 **AUDIT OPINION**

4.1 Veritau works to the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. In connection with reporting to Audit Committees, that guidance states that:

"The Head of Internal Audit's formal annual report to the organisation should:

(a)   include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment

(b)   disclose any qualifications to that opinion

(c)   present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies

(d)   draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement.

(e)   compare work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria

(f)   comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme".

4.2 The overall opinion of the Head of Internal Audit on the controls operated in CEG is that they provide **Substantial Assurance**. However, it should be noted that this opinion is based on only two audits. As with other directorates, audit work focuses on those areas of high risk to the County Council and therefore there are many other areas that continue to operate effectively (but which will not be reflected within this report). The overall opinion also takes account of the progress made by management within CEG to address control weaknesses identified during the course of the year.

There are no qualifications to this opinion and no reliance was placed on the work of other assurance bodies in reaching that opinion.

5.0 **STATEMENT OF ASSURANCE AND DIRECTORATE RISK REGISTER**

5.1 The Chief Executive and each Corporate Director produce a **Statement of Assurance** (SoA) at the end of each financial year. In this Statement the Corporate Director identifies those items that may give rise to internal control or performance risk issues for the Directorate in the forthcoming year. These issues feed into the process that enables the Annual Governance Statement (AGS) to be prepared for the County Council.

5.2   **Appendix 2** details the items identified by the Chief Executive in May 2011 (first two columns of the Appendix) – the *Progress to date* column has been added and records management action(s) to date in this financial year.

5.3   The **Directorate Risk Register** (DRR) is the end product of a systematic process that initially identifies risks at Service Unit level and then aggregates these via a sieving process to Directorate level. A similar process sieves Directorate level risks into the Corporate Risk Register.

5.4   **Appendix 3** summarises the risks identified when the DRR was last reviewed in December 2011. As with the SoA a *Progress to date* column has been added to record management action(s) to date.

5.5   There is bound to be a degree of overlap between SoA issues and the Directorate Risk Register. Cross referencing is therefore provided, where appropriate, between **Appendices 2 and 3** to assist Members consider the two documents in parallel.

6.0   **RECOMMENDATION**

6.1   That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Chief Executive's Group is both adequate and effective.

MAX THOMAS   RICHARD FLINTON
Head of Internal Audit   Chief Executive
Veritau Ltd

County Hall
Northallerton

21 February 2012

BACKGROUND DOCUMENTS

Relevant Audit Reports kept by Veritau Ltd at 50 South Parade.
Contact Roman Pronyszyn 2284.

Report prepared by Roman Pronyszyn, Audit & Information Assurance Manager and presented by Max Thomas, Head of Internal Audit.

APPENDIX 1 - FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 JANUARY 2012

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
Emergency Planning	High Assurance	The Emergency Planning Unit is providing a cost effective and efficient service to the District Councils.	29/09/2011	Systems for the provision of services were found to be effective and well controlled.	No issues at priority 1 or 2. No action necessary
Members Services	Moderate Assurance	The provision of IT, secretarial and other services to members.	31/08/2011	Overall, the audit concluded that an acceptable level of control was in place, although a number of issue were identified concerning: • Verification of chauffeur's mileage; • Letting an renewing contracts; • Storage and recording of members stamps • Printing consumables; and • Budget monitoring	Two category 2 and 2 category 3 issues identified. The contract for the provision of chauffeur services has been ended and control over consumables tightened. **Responsible Officers: -** Staff Officer to the CE Manager, Democratic Services Finance Manager, CASU

APPENDIX 2 - EXTRACT FROM STATEMENT OF ASSURANCE PROVIDED BY THE CHIEF EXECUTIVE

AREAS FOR IMPROVEMENT IDENTIFIED

BY CHIEF EXECUTIVE'S GROUP

Areas for improvement		Action proposed	DRR Ref	Progress to date (Jan 2012)
A	Creating the cultural environment and organisational structures in order to:-	1. Restructure of County Council including:- • creation of Health and Adult Services to lead on joint working with Health • Libraries, Archives, Registrars and Coroners Service transferred to the Chief Executive's Group	A/E	Structural changes implemented for HAS and Libraries, Archives, Registrars' & Coroner's Services. A new Corporate Director has now commenced for HAS.
	- achieve a stronger One Council identity - encourage a culture of improvement and innovation - ensure that the County Council is fit for purpose for the future, and - deliver savings to contribute towards the MTFS by reducing organisational duplication.	• responsibility for general administration across the County Council to be held within the Chief Executive's Group 2. Implementation of a range of activities / workstreams within the One Council Change Programme. These include:- • 9 specific workstreams where a consolidated County Council approach is being pursued		Structural changes relating to general administration to take place at a later stage; work continues in developing this workstream in the interim. Workstream plans for all 9 areas are being progressed.

AREAS FOR IMPROVEMENT IDENTIFIED

BY CHIEF EXECUTIVE'S GROUP

Areas for improvement	Action proposed	DRR Ref	Progress to date (Jan 2012)
	• comprehensive programme of communications with staff led by the Chief Executive to promote the cultural and organisational changes		Chief Executive has held a series of staff meetings across the County and issues regular One Council updates to managers and staff.
	• establishing a coherent Programme with clear governance including that of elected Members		Responsibilities set out. Report submitted to Executive on 29 November 2011 and Corporate & Partnerships O&S Committee have formed a One Council Task Group.
	• reviewing and implementing performance management arrangements across the County Council to focus on the individual and team		Proposals currently being formulated as part of the One Council programme.
	• encouraging a culture where staff and customer views are actively sought and drive a culture of improvement and innovation		Staff actively encouraged to participate in clarifying budget savings ideas, and to volunteers to participate in One Council workstreams. "Making it happen" workshops also being developed to ensure staff participation in proposed changes.
	• detailed financial savings are assessed at workstream level and make a contribution towards the MTFS savings requirement		High level savings targets established and considered by the Executive on 29 November 2011.

AREAS FOR IMPROVEMENT IDENTIFIED

BY CHIEF EXECUTIVE'S GROUP

Areas for improvement	Action proposed	DRR Ref	Progress to date (Jan 2012)
B	Local Authorities will be affected by emerging legislation in the coming year, firstly under the Localism Bill which will potentially impact upon community engagement, decentralisation and local democracy, planning, and the ethical framework. The changes will affect the ways in which decisions are made, will increase the influence communities will have over the activities of local authorities in various areas including contracting, and will unpick the current ethical framework but impose a strong requirement on authorities to promote ethical standards. The County Council will need to put in place measures to effect the changes including changes to the Constitution, some decision making and the development of a new ethical framework.	1. Monitor progress of legislation. 2. Deliver training to ensure awareness of the legislation by members and officers likely to be affected. 3. Review relevant Council processes and the Constitution and undertaken all necessary steps to incorporate and implement necessary changes arising from the legislation. 4. Develop and implement changes to the ethical framework following enactment of the Localism Bill	E	Briefings on the Act and the implications for the County Council have been provided to elected members, Management Board and relevant officers. Reviews of relevant County Council processes, the Constitution and the ethical framework are being undertaken by the Corporate Governance Officers Group (CGOG) as the legislation, particularly secondary legislation, is finalised; with necessary changes being made as required.

AREAS FOR IMPROVEMENT IDENTIFIED

BY CHIEF EXECUTIVE'S GROUP

	Areas for improvement	Action proposed	DRR Ref	Progress to date (Jan 2012)
	Also, the Bribery Act 2010 (in force July 2011) indirectly affects local authorities in the area of contracting, the potential for individuals to caught by provisions of the Act, and its affect on companies including local authority companies.			
C	Co-ordination and prioritisation of staff training and development to improve access to services, deliver them more efficiently and reduce spend	Continue developments in coordinating need and spend on training and development across Directorates focusing on e and blended learning and use of new technology such as virtual classrooms to maximise coverage whilst minimising spend resulting in a new plan for the next 3 years.	D	The One Council workstream on HR/Workforce Development has concluded its work on bringing all development, training and learning resources together for approval by Management Board on the 20 March 2012. Implementation will be concluded by summer 2012 resulting in a coordinated and cohesive approach, processes and arrangements for training and development across the County Council. These proposals deliver savings without reducing capacity (the volume and spend on staff training) by bringing the 4 separate Directorate teams together. In the meantime a roll out of online learning has progressed with mandatory training on Equality and Diversity and Health and Safety. Online learning for managers covering all key development areas is being piloted with 60 managers using the new learning platform for middle managers which includes learning resources, webinars and some face to face learning sets.

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NORTH YORKSHIRE COUNTY COUNCIL-AUDIT CTTEE 08/03/12
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MATTERS FOR THE CHIEF EXECUTIVE'S GROUP

AREAS FOR IMPROVEMENT IDENTIFIED

BY CHIEF EXECUTIVE'S GROUP

Areas for improvement	Action proposed	DRR Ref	Progress to date (Jan 2012)
D	Improve internal communication and engagement	Further develop internal communications for staff, building on intranet developments and the increasing number of staff accessing and utilising HR systems online.	B	The intranet has been reviewed and the "look and feel" as well as content improved. Further developments are in progress to improve the flow of content for staff and managers to better link to automated (ie self service) staffing processes. The new approach follows the life cycle of an employee.
		Develop ways in which staff can contribute ideas and opinions on issues affecting them. Further develop channels of communication for the Chief Executive and the One Council change programme.		The removal of printed payslips and, the printed newsletter to all staff presented a challenge which is being met as follows:
				The development of HR Systems on line provides electronic access for 5500 staff with an NYCC email and easy access to the intranet, and a further 8250 staff who can be contacted directly via private email. This 13750 staff represents almost the entire non-schools workforce and many staff who had been previously 'hard to reach'.
				Channels for communicating with staff focus on the improved intranet and developments have been put in place to encourage staff to visit the intranet for information on key corporate issues. In addition to the main news area, a Staff Area has been introduced which holds articles celebrating staff achievements, sharing examples of good practice and provides regular audio interviews with staff across the County Council to illustrate progress on One Council and show how it is being applied 'on the ground'.

AREAS FOR IMPROVEMENT IDENTIFIED

BY CHIEF EXECUTIVE'S GROUP

Areas for improvement	Action proposed	DRR Ref	Progress to date (Jan 2012)
			The role of 'middle' managers is vital to effective communication with the wider workforce. There is a linked area featuring a key monthly message to all 'middle' managers from the CEX reinforcing the key management and signposting new, or timely, policies, training opportunities and systems to be used.

The CEX also issues a message direct to staff via the intranet fortnightly outlining how events on a regional and national level impact on the County Council and its residents. This asks for feedback which is responded to by the CEX.

If staff do not have automatic contact with the intranet, a monthly Your Council newsletter is available covering essential staff information in a shortened form and encouraging use of the intranet through live links and a QR code to allow direct access from mobile phones. This is emailed to around 8500 staff on private emails and managers are requested to make sure staff receive the newsletter through printed versions where necessary.

Future developments include, a staff survey to measure engagement, a short survey and analysis of intranet statistics to measure responses and the development of employee panels to test and engage with new systems and processes. |

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AREAS FOR IMPROVEMENT IDENTIFIED

BY CHIEF EXECUTIVE'S GROUP

Areas for improvement		Action proposed	DRR Ref	Progress to date (Jan 2012)
E	Deliver changed internal processes relating to HR by a move to electronic provision with staff and managers operating a self service approach.	Continue system developments (including online payslips and expenses for all staff, online training approval and recording, e-recruitment and redeployment) to further expand self service functionality for staff and managers via the intranet to cover – • all leave approval • online timesheets roll out • e-CRB • e-Personal Files	C	Online expenses, payslips and P60 are now embedded covering all staff (non schools and over half of schools based staff with roll out continuing for the remainder). Online timesheets have been rolled out for all care staff and are progressing for cleaning and catering staff. The new e-leave system is live from the 1st April covering all leave including sick leave, maternity and annual leave. E-recruitment has been introduced with partial functionality awaiting completion of test stage for e-CRB. This was achieved in February and will be live alongside full e-recruitment functionality from April 2012. EDRMS (electronic document records)is in rollout stage for all staff files. To date all schools files (some 18000), CEG, FCS and BES are now electronic with dates planned for the remaining directorates with full completion as of December 2012. The automation of processes within MyView linked to EDRMS continue with an 18 month delivery plan which will see the vast majority of staffing processes automated.

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APPENDIX 3 – CHIEF EXECUTIVE'S GROUP - RISK REGISTER

Risk Register					
Risk		**Current Risk Rating**	**Post Risk Rating**	**SoA Ref**	**Progress to date (Jan 2012)**
A	Failure to coordinate and support the One Council change programme resulting in financial cost, poorer service outcomes, lost opportunities, need to revisit savings on front line services	2	5	**A**	Developed initial plan/route map. Finalised savings budget accountabilities defined across Directorates.
B	Failure to effectively inform, consult, engage and involve the public/staff/Members resulting in public dis-satisfaction, loss of reputation, low morale, criticism of Members and missed opportunities	4	5	**B/C**	Online replacement for NYTimes (NYNow) developed.
C	Insufficient HR and Legal support to assist Directorates and the wider Council in delivering savings and implementing change resulting in tribunals and/or the inability to realise savings	4	5	**E**	Ongoing. Support being provided to Directorates following restructures. Impact being monitored.
D	Failure to adequately manage the transition of L&CS and admin staff into CEG resulting in suboptimal performance, low morale and missed opportunities.	5	5	**C**	Functions and staff relating to L&CS have transferred to CEG successfully. Communications and integration ongoing.
E	Failing to ensure that the Council acts lawfully in its operations resulting in challenge, non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations	5	5	**B**	Ongoing monitoring of new legislation and communication of changes to Directorates as appropriate.