

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

7 MARCH 2013

## INTERNAL AUDIT WORK ON CONTRACT ARRANGEMENTS

## Report of the Head of Internal Audit

**1.0 PURPOSE OF THE REPORT**

- 1.1 To inform Members of the internal audit work performed during the year ended 31 January 2013 on contract arrangements and related matters and to give an opinion on the systems of internal control in respect of this area.

**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 contract audit, the Committee receives assurance through the work of Internal Audit (as provided by Veritau Ltd).
- 2.2 This report details the contract audit work undertaken by Veritau and provides a summary of the audit reports issued since the last report was presented to this Committee in March 2012. It should be noted that some of the reports detailed in **Appendix 1** may apply to a number of directorates depending on the area under review. Because this report addresses a functional theme rather than the activity of one directorate, there is no corresponding Directorate Risk Register (DRR). However, the majority of contract audit work falls under the responsibility of the Business and Environmental Services (BES) and Central Services (CS) Directorates. The DRR for BES was presented to this Committee at its meeting on 6 December 2012. The DRR for CS is presented in a separate report on this agenda.

**3.0 WORK DONE DURING THE YEAR ENDED 31 JANUARY 2013**

- 3.1 A summary of the internal audit reports which have been finalised since March 2012, is attached at **Appendix 1**. Specific attention is drawn to any Priority 1 agreed actions that management have chosen not to implement.
- 3.2 Veritau officers have also been involved in a number of other areas related to contract audit. These have included:
- providing advice and guidance to directorates and schools on ad hoc contract queries and on matters of compliance with the County Council's Contract and LMS Procedure Rules;

- attending meetings (as necessary) of the Corporate Procurement Group (CPG) to report on relevant audit findings and to provide advice and input to the Group as required;
- reviewing final accounts for capital projects. Using a risk based process, Veritau auditors identify those projects which need to be reviewed in more detail and request the relevant documentation;
- contributing to the annual review and update of the County Council's Contract Procedure Rules.
- retaining copies of scoring mechanisms for pre qualification questionnaires (PQQs) and invitations to tender (ITTs). Details of scoring mechanisms must be logged with Veritau prior to the evaluation process taking place.
- presenting a number of training courses throughout the County on the application of LMS Procedure Rules for the benefit of staff in schools.
- carrying out a number of special investigations into contract related matters that have either been communicated via the whistleblowers' hotline or have arisen from issues and concerns raised with Veritau by 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. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking.

3.4 The opinions and priority rankings used by Veritau are provided for the benefit of Members at **Appendix 2**.

3.5 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau now formally follows 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.**

#### 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 operating in respect of contract matters is that they provide **Substantial Assurance**. There are no qualifications to that opinion and no reliance has been placed on the work of other assurance bodies in reaching that opinion.

## 5.0 RECOMMENDATION

5.1 That Members consider the information provided in this report to determine whether they are satisfied that the internal control environment operating in relation to contract arrangements is both adequate and effective.

MAX THOMAS  
Head of Internal Audit  
Veritau Ltd

## BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade. Contact Roman Pronyszyn 2284.

Report prepared by Roman Pronyszyn, Client Relationship Manager and presented by Max Thomas, Head of Internal Audit

County Hall  
Northallerton

19 February 2013

## FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 JANUARY 2013

	System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
A	Property Services – Payments to Jacobs (see also report on Central Services)	Substantial Assurance	The audit reviewed the effectiveness of the controls in place to ensure payments made are accurate, timely and for work done in accordance with the terms of the contract.	22/06/12	It was found that the controls were good with few weaknesses identified.	<b>Two P3 actions were agreed.</b> <b>Responsible officers:</b> Finance Manager – Corporate Accountancy  Formal minutes of operational meetings are now recorded.
B	Property Services – Project Cost Monitoring (see also report on Central Services)	Substantial Assurance	A review of the controls in place to initiate and manage projects. The audit also evaluated adherence to the new system for processing change orders for works and fees.	22/06/12	Controls were found to be good. Two small errors were found on change orders. Although not significant, neither the project sponsor nor Jacobs staff had identified these errors.	<b>One P3 action was agreed.</b> <b>Responsible officers:</b> Finance Manager – Corporate Accountancy  Relevant staff in NYCC and Jacobs were made aware of the errors and corrective action was taken.
C	Revenue Contracts 2011/12 - Lyreco	Substantial Assurance	A review of contract management and monitoring arrangements.	22/08/12	No significant issues were found although there was a lack of staff awareness of the Lyreco contract resulting in some expenditure being incurred outside the contract. In addition, performance information supplied by Lyreco was incomplete.	<b>Two P2 and two P3 actions were agreed.</b> <b>Responsible officers:</b> AD Central Finance  NPG took action to improve awareness of the contract.. NPG also agreed to review the core items lists when the contract became due for re-tendering.

	System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
D	Capital Contracts 2011/12 - Boroughbridge High School	Substantial Assurance	A review of the controls applied to the framework contract for capital works at Boroughbridge High School (cost – approximately £350k).	08/03/12	Effective controls were found to have been in place. The only issue related to the failure to retain payments until the works had been completed to a satisfactory standard. This was due to the type of contract used. The contractor in question ceased trading before the end of the defects liability period.	<p><b>One P2 action was agreed.</b></p> <p><b>Responsible officers:</b> AD Corporate Property Management</p> <p>Management decided to take no action as the introduction of retention payments would be contrary to this form of contract.</p>
E	Revenue Contracts 2012/13 - CYPS Holiday Day Care	Limited Assurance	<p>The audit reviewed the contract for specialist holiday day care for disabled children. As this is a specialist service, 6 different providers are contracted to provide care across North Yorkshire.</p> <p>The objective of the audit was to provide assurance that effective and timely contract management and monitoring arrangements are in place.</p>	13/08/12	<p>Control weaknesses were found in the management and monitoring of two of the contracts, as follows:</p> <ul style="list-style-type: none"> <li>for one contract, the payment terms were altered after the service had been procured (in addition, the contract had not been signed by both parties until 18 months into the contract term).</li> <li>for another contract, a number of duplicate invoices had been submitted and paid (total value £1.4k) – these invoices were authorised and paid with no controls in place to detect the overpayment.</li> </ul> <p>It was also found that the contracts contained a standard clause stating that providers would receive an annual uplift in the hourly rate payable, in line with inflation. However those providers who have not requested the increase had not received it. This inconsistent approach could be open to challenge.</p>	<p><b>Two P1 and three P2 actions were agreed.</b></p> <p><b>Responsible officers:</b> Senior Contracts Officer (CYPS)</p> <p>The issue of alterations to contracts was raised at the Functional Procurement Management Team (FPMT). It was agreed that Legal Services would be consulted if providers proposed a material change in the payment terms of a contract. For the contract in question, a retrospective exception to Contract Procedure Rules was obtained and placed on file.</p> <p>A new system has been put in place that should prevent the payment of duplicate invoices in the future. The overpayments in question have been repaid by the provider</p>

	System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
						Management do not propose to retrospectively correct the underpayments to those providers in question. After consultation with Legal Services, they accept the risk that the providers may challenge this in the future.
F	Revenue Contracts 2012/13 – HAS Avalon day services contract	Moderate Assurance	The objective of the audit was to provide assurance that effective and timely contract management and monitoring arrangements are in place.	29/08/12	Overall, there was a satisfactory management of risk. The key finding was the lack of any verification checks undertaken in respect of the provider's self assessment under the NYCC Quality Assurance Framework. In addition, there was no monitoring of insurance cover and, prior to June 2012, it was not possible to reconcile the financial assessments and the client contributions collected by Avalon on behalf of NYCC.	<p><b>One P2 and two P3 actions were agreed.</b></p> <p><b>Responsible officers:</b> Contracting, Procurement and Quality Assurance Manager (HAS)</p> <p>Validation visits are in the process of being set up on a random sample basis. However, resource constraints limit the number of validation visits that can be carried out. In addition, the risk is mitigated by annual meetings with providers and the return of monthly monitoring returns.</p> <p>From 1 September 2012, a new database was implemented which contains all provider data in respect of domiciliary care, care homes, non-residential services and block contracts. A specific section in this database contains details of insurances. A report is now being generated each month to list all providers with insurance renewals due –</p>

	System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
						evidence will be sought and stored on file.
G	Revenue Contracts 2012/13 – TMP Advertising Contract	High Assurance	The objective of the audit was to provide assurance that effective and timely contract management and monitoring arrangements are in place.	12/10/12	Overall, there was good management of risk with few weaknesses found. In one case, an order request form could not be located. Compliance with contract conditions was also not being evidenced.	<p><b>Two P3 actions were agreed.</b></p> <p><b>Responsible officers:</b> Principal Advisor – Resourcing and Reward</p> <p>Minor improvements to the order request system were made. In addition, evidence was obtained to demonstrate contract compliance.</p>
H	Compliance with NYCC Contract Procedure Rules	Moderate Assurance	To review compliance with the Contract Procedure Rules.	01/06/12	<p>The main issues identified during the audit relate to:</p> <ul style="list-style-type: none"> <li>the completing and archiving of contracts</li> <li>the retention of supporting contract documents</li> </ul>	<p><b>Four P2 actions were agreed</b></p> <p><b>Responsible officers:</b> AD Central Finance Procurement, Assurance and Quality Manager - ICT Directorate Procurement Champions NPG</p> <p>The relevant policies and procedures were reviewed by the Corporate Procurement Group in March 2012 and an action plan put in place to address the weaknesses in the current arrangements for retaining and archiving documents.</p>

### Audit Opinions and Priorities for Actions

Audit Opinions	
<p><i>Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.</i></p> <p><i>Our overall audit opinion is based on 5 grades of opinion, as set out below.</i></p>	
Opinion	Assessment of internal control
<i>High Assurance</i>	<i>Overall, very good management of risk. An effective control environment appears to be in operation.</i>
<i>Substantial Assurance</i>	<i>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.</i>
<i>Moderate assurance</i>	<i>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.</i>
<i>Limited Assurance</i>	<i>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.</i>
<i>No Assurance</i>	<i>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.</i>

Priorities for Actions	
<i>Priority 1</i>	<i>A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.</i>
<i>Priority 2</i>	<i>A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.</i>
<i>Priority 3</i>	<i>The system objectives are not exposed to significant risk, but the issue merits attention by management.</i>