

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

7 MARCH 2013

## INTERNAL AUDIT WORK FOR THE CENTRAL SERVICES DIRECTORATE

## 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 for the Central Services Directorate (CSD) and to give an opinion on the systems of internal control in respect of this area.

**2.0 BACKGROUND**

- 2.1 The Central Services Directorate was formed in October 2012 with the bringing together of the former Finance and Central Services Directorate (F&CS) and the Chief Executive's Group (CEG). This is the first report to the Committee on internal audit work carried out within the new Directorate and it includes details of work carried out within the former F&CS directorate and CEG.
- 2.2 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to CSD, the Committee receives assurance through the work of internal audit (as provided by Veritau Ltd), as well as receiving a copy of the latest directorate risk register.
- 2.2 In the past, these assurances have been provided to the Committee as part of a single, joint report by the Head of Internal Audit and the relevant Director/Assistant Chief Executive. To improve clarity, the information is now being presented as two separate reports. In the past, details of the relevant Statement of Assurances (SoA's) have also been provided to the Committee in accordance with the rolling programme of directorate reports. It is now proposed to present the annual SoA's together at the same time that the Committee is asked to consider the Annual Governance Statement, usually in June. There will then be a further report at the mid-point in the year to enable the Committee to assess the progress which has been made by management to address the issues contained in each of the SoA's. An update report covering the management board SoA and the individual directorate SoA's was presented to the last meeting of the Committee on 6 December 2012.

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

3.1 Detail of the work undertaken in what is now the Central Services Directorate 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 the directorate. This work has included:

- providing advice and support on key projects and development; and
- carrying out investigations as a result of communications via the whistleblowing hotline or concerns raised 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. The opinions and priority rankings used by Veritau are detailed in **appendix 2**.

3.4 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.**

3.5 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 therefore focuses on the areas of highest risk. Veritau officers work closely with directorate senior managers 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.

### 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 the Central Services Directorate is that they provide **Substantial Assurance**. 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 RECOMMENDATION

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Central Services Directorate is both adequate and effective.

MAX THOMAS  
Head of Internal Audit

Veritau Ltd  
County Hall  
Northallerton

19 February 2013

## BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade.

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

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

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Smallholdings	Moderate Assurance	The audit reviewed the controls in place to ensure that, tenants comply with their tenancy agreements, maintenance is carried out when required, rents are received when due and that property is disposed of in line with NYCC policy.	22/08/12	Control weaknesses were found in the process for collecting rent. It was also found that site visits were not always recorded and information in respect of debts was not reported to senior management.	<b>Two P2 and two P3 actions were agreed.</b>  <b>Responsible Officer:</b> Corporate Asset Manager  Roles and responsibilities in respect of debt collection have been clarified. Debts over £20k are reported to senior management..
B	Capital Accounting	High Assurance	The audit reviewed the systems in place to finance, monitor and account for assets and capital expenditure.	18/04/12	Controls were found to be good and no issues were reported.	<b>N/A</b>
C	Debtors 2011/12	Substantial Assurance	A review of the effectiveness of controls over the raising of debtor invoices and the receipt of income.	22/02/12	Overall, the audit found that controls were working well. The main issues related to: <ul style="list-style-type: none"> <li>• manual invoices being raised by HAS rather than via Oracle</li> <li>• Delays in raising some invoices</li> <li>• Invoices being raised where the value of the supply was</li> </ul>	<b>Three P2 and one P3 actions were agreed.</b>  <b>Responsible Officers:</b> AD Central Finance and AD Resources (HAS)  The raising of manual invoices has now been ceased. Individual errors identified have been corrected.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					below £25.	
D	Debtors – Analytical Review 2011/12	Substantial Assurance	The objective of the review was to identify potential anomalies within the Oracle Debtors system and to report them to management for further investigation.	06/03/12	<p>The review identified numerous gaps, or ‘missing’ invoice numbers within the overall AR range. As there are no controls built into the system to detect this, it may mean the invoice number range is used more quickly than necessary. Whilst a number of the gaps identified can be explained by the incorrect raising of invoices, there appeared to be a systemic problem with the interface between SWIFT Financials and Oracle. This issue will require further investigation by ICT Services.</p> <p>Otherwise, controls were found to be operating correctly. No duplicate invoice numbers were identified and a review of high value credit notes indicated that they were all appropriate.</p>	<p><b>Three P2 actions were agreed.</b></p> <p><b>Responsible Officers:</b> AD Central Finance.</p>
E	Main Accounting	High Assurance	A review of the effectiveness of controls in respect of the general ledger, including the processing of journals and virements.	19/3/12	No significant control weaknesses were found. However, it was noted that there is no procedure to periodically check that access permissions to Oracle Financials remain appropriate.	<p><b>No actions were agreed.</b></p> <p>Management consider that the existing controls are adequate and the risk of inappropriate access is low.</p>
F	Feeders	High	A review of controls in respect	12/11/12	No significant control	<b>One P3 action was agreed.</b>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		Assurance	of the various feeder systems to Oracle Financials, including the processing of input files and reconciliation arrangements.		weaknesses were found. However, it was noted that there was a delay in rectifying problems with the interface from the Swift Receivables feeder system.	<p><b>Responsible Officers:</b> Oracle System Manager</p> <p>The interface problems noted in the audit report have been rectified</p>
G	Members' Allowances	N/A	The audit assessed compliance with the Members' Allowance Scheme.	3/9/12	No significant issues were found although a number of claims lacked sufficient detail to enable verification. It was also noted that Members continue to receive hardcopy payslips.	<p><b>Eight P3 actions were agreed.</b></p> <p><b>Responsible Officers:</b> AD Central Finance.</p> <p>The decision has been taken to discontinue paper payslips.</p>
H	Property Services – Payments to Jacobs (see also report on Contract audit)	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.	<p><b>Two P3 actions were agreed.</b></p> <p><b>Responsible officers:</b> Finance Manager – Corporate Accountancy</p> <p>Formal minutes of operational meetings are now recorded.</p>
I	Property Services – Project Cost Monitoring (see also report on Contract audit)	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.	<p><b>One P3 action was agreed.</b></p> <p><b>Responsible officers:</b> Finance Manager – Corporate Accountancy</p> <p>Relevant staff in NYCC and Jacobs were made aware of the errors and corrective action was taken.</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>