

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

7 MARCH 2013

## INTERNAL AUDIT WORK ON CORPORATE THEMES

## 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 corporate/cross-cutting themes and to give an opinion on the systems of internal control in respect of the areas examined.

**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 corporate themes, the Committee receives assurance through: the internal audit work of Veritau Ltd; the Annual Governance Statement; the Statements of Assurance; and the Corporate Risk Register. The Committee also receives details of the progress made to date by management to address areas for improvement and identified risks.
- 2.2 This report details the work undertaken by Veritau on corporate themes 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 reports detailed in **Appendix 1** necessarily relate 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 Statement of Assurance (SoA). In addition, details of the Corporate Risk Register were presented to the last meeting of the Committee on 6 December 2012. There have been no significant changes in the County Council's risk profile since that date.

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

- 3.1 A summary of the internal audit reports issued in the year since the last report on corporate matters, to the Audit Committee in 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 relevant to corporate matters, including:
- the Head of Internal Audit attends the Corporate Governance Officers Group;

- the Client Relationship Manager attends the Functional Procurement Management Team (FPMT) and the Corporate Risk Management Group as required;
- the Client Relationship Manager and the Information Governance Officer attend the Corporate Information Governance Group (CIGG2);
- the Information Governance Team is involved in progressing the information governance agenda and has been instrumental in developing the County Council's overall information governance policy framework;
- completion of the audit of the final grant claims for funding the York and North Yorkshire LEP start up (for expenditure incurred in the period to 31/3/12);
- completion of the audit certificate for the Carbon Reduction Commitment (CRC) Energy Efficiency return prior to its submission to the Environment Agency in July 2012.

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 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.**

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 is therefore focussed on the higher risk areas. Veritau officers work closely with senior managers to address any areas of concern.

#### 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 corporate themes 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 the audit areas examined 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

20 February 2013

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

	System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
A	Value Added Tax (2012/13)	High Assurance	<p>A review of the controls within the system to ensure that:</p> <ul style="list-style-type: none"> <li>procedures and guidelines are up to date and there is compliance with VAT regulations</li> <li>VAT is accurately recorded on Oracle</li> <li>VAT is correctly charged</li> <li>Returns to HMRC are produced promptly and accurately</li> </ul>	23/11/12	<p>Controls were found to be good. A small number of errors were noted with the coding and checking of invoices where VAT had been reclaimed.</p> <p>Although monthly error reports are run in order to identify where VAT does not seem to have been accounted for correctly, these reports were not being checked.</p>	<p><b>Two P3 actions were agreed</b></p> <p><b>Responsible Officer:</b> AD Corporate Accountancy</p> <p>Training and guidance has been provided to raise awareness of the need to check invoices to ensure that they comply with HMRC regulations. Work is also ongoing to reduce the backlog of outstanding error logs. The intention is to complete this work by April 2013.</p>
B	Internal and External Venue Costs (2012/13)	Substantial Assurance	The audit reviewed the plans to reduce expenditure on external venues over the coming years by using internal venues more efficiently.	07/12/12	Whilst at the early stages of implementation, the new booking arrangements are likely to result in significant savings to the County Council. Work is progressing and the new systems should be fully operational by 31 March 2013.	<p><b>One P2 action was agreed</b></p> <p><b>Responsible Officers:</b> AD Corporate Property Management Assistant Chief Executive – Human Resources and Organisational Development.</p> <p>Expenditure on external bookings will be monitored through the Business Support Unit and compared with information for previous years. The information will be used to influence decisions on future bookings.</p>
C	Complaints Handling	High	The audit reviewed the	31/10/12	Overall the system and controls	<b>N/A</b>

	System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
	(2012/13)	Assurance	arrangements within CYPS and HAS for handling complaints. The audit also reviewed the introduction of the new corporate complaints system software.		were found to be effective and no significant issues were identified.	
D	Information Security Checks (2012/13)	Moderate Assurance	The audit assessed the level of information security awareness at specific locations and the degree to which staff complied with the County Council's information governance policies and guidance. Unannounced visits were made to four office locations.	20/11/12	Concerns were noted with the security of personal and sensitive information at all the sites visited. In addition, laptops, portable devices and passwords were not always kept secure and the server room at one office was left unlocked and freely accessible.	<p><b>One P1 and seven P2 actions were agreed</b></p> <p><b>Responsible Officers:</b> AD Corporate Property Management Directorate Information Governance Champions</p> <p>Implementation of the agreed actions is being progressed through the Corporate Information Governance Group (CIGG2).</p> <p>A revised e-learning training package has been introduced and completion of this has been made mandatory for all staff.</p>
E	Savings Delivery (2011/12)	High Assurance	The audit examined whether risks to the control environment were being adequately assessed in the preparation and implementation of the savings plans. Ten projects, representing 17% of the identified savings were reviewed.	01/05/12	In all of the savings projects reviewed, the impact on controls was either considered to be limited, or management were aware of the risks, had evaluated the possible consequences and had taken appropriate action. No actions were therefore identified.	<b>N/A</b>

	<b>System/Area</b>	<b>Audit Opinion</b>	<b>Area Reviewed</b>	<b>Date Issued</b>	<b>Comments</b>	<b>Action Taken</b>
F	Service Continuity (2011/12)	Substantial Assurance	The audit reviewed the effectiveness of the service continuity pilot operating within the BES directorate.	20/04/12	The audit concluded that the pilot provided a good foundation and the arrangements were suitable for wider roll-out. One issue concerning the appointment of Directorate Champions was raised.	<p><b>One P2 action was agreed</b></p> <p><b>Responsible Officer:</b> Corporate Director – F&amp;CS</p> <p>It was agreed that nominations for service continuity champions would be sought from CYPS and HAS.</p>
G	Agency Staff (2011/12)	High Assurance	The audit reviewed the arrangements for engaging agency workers to ensure the County Council was complying with the new Agency Worker Regulations (introduced on 1 October 2011). The audit also considered whether managers were complying with the Council's policies when deciding to engage agency workers (for example, checking the redeployment register and obtaining the necessary approvals beforehand).	21/03/12	Controls were found to be good. The only issue related to a lack of clarity over responsibility for monitoring the length of engagements.	<p><b>One P3 action was agreed</b></p> <p><b>Responsible Officer:</b> Recruitment Manager</p> <p>Guidance relating to the monitoring of agency worker engagements was reissued to all authorising managers.</p>
H	Equalities (2011/12)	Substantial Assurance	The audit reviewed the effectiveness of controls in respect of equalities, including the arrangements for monitoring and reporting adherence to relevant legislation.	07/12/12	The audit found that effective controls are in place. Further clarification was however required in respect data compilation for the Annual Equalities Report and other management information.	<p><b>Three P3 actions were agreed</b></p> <p><b>Responsible Officer:</b> Corporate Development Officer</p> <p>All the agreed actions have been implemented.</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>