

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

27 JUNE 2013

ANNUAL REPORT OF THE HEAD OF INTERNAL AUDIT

1.0 PURPOSE OF THE REPORT

- 1.1 To provide a summary of the internal audit work performed during the year ended 31 March 2013 and to express an opinion on the overall internal control environment in place within the County Council.
- 1.2 To provide Members with details of breaches to Finance, Contract and Property Procedure Rules identified during 2012/13 audit work.
- 1.3 To consider the Internal Audit performance outturn for 2012/13 and the 2013/14 performance targets for Veritau.

2.0 BACKGROUND

- 2.1 The work of internal audit is governed by the Accounts and Audit Regulations 2011, the Internal Audit Terms of Reference and relevant professional standards. During 2012/13, the applicable standards for internal audit were contained in the CIPFA Code of Practice for Internal Audit in Local Government (2006)¹. In accordance with the Code of Practice, the Head of Internal Audit is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
- 2.2 Audit work was undertaken across all of the County Council's services and activities in accordance with an Internal Audit Plan, which was approved by this Committee on 19 April 2012.
- 2.3 Detailed internal audit findings have been reported to this Committee in accordance with the following cycle:-

September 2012	Health and Adult Services IT Audit
December 2012	Business and Environmental Services
March 2013	Central Services Corporate audits Contract Audit

¹ The CIPFA Code of Practice for Internal Audit in Local Government was replaced on 1 April 2013 by the Public Sector Internal Audit Standards.

Counter fraud matters

April 2013

Children & Young People's Services

2.4 In each of the above reports, with the exception of the report on counter fraud matters, the Head of Internal Audit provided an opinion on the system of internal control in operation within the particular functional area or directorate.

3.0 **WORK DONE - 2012/13**

- 3.1 During 2012/13, Veritau has been responsible for evaluating the adequacy and effectiveness of the County Council's control environment, promoting counter fraud arrangements, and providing advice and making recommendations to management to improve controls and/or to address the poor or inappropriate use of resources. Veritau completed almost 94% of the Internal Audit Plan against an agreed performance target of 93%. The overall opinions provided to this Committee, at meetings between April 2012 and June 2013, are detailed in **Appendix 1**.
- 3.2 The results of completed audit work have been reported to the relevant service managers, the Corporate Director – Strategic Resources and the Audit Committee. Audit findings relating to 2012/13, which have not yet been reported to this Committee, will be presented in due course as part of the agreed Audit Committee Programme of Work. On the basis of the follow up work undertaken during the year, satisfactory progress has been made by management to address identified control weaknesses. Outstanding actions continue to be monitored and in most cases progress is considered to be acceptable.
- 3.3 As previously reported, Veritau has been involved in a number of investigations into suspected fraud and corruption. These investigations have been carried out in response to concerns raised by management or through the whistleblowing reporting system. Further proactive work has also been carried out to address a number of specific fraud risks. The County Council's Fraud and Loss Risk Assessment and the Counter Fraud Strategy were also updated during the year. In addition, Veritau has continued to issue alerts to service managers and schools to draw attention to potential threats and scams.
- 3.4 The Information Governance Team (IGT) co-ordinates all requests for information (excluding Social Care Data Protection requests) and provides advice and guidance on the application of information related legislation (including the Data Protection and Freedom of Information Acts). A total of 1,029 FOI requests were received during 2012/13, compared to 1,105 in 2011/12. This represents the first decrease in the numbers processed since the legislation was introduced.
- 3.5 The IGT has also continued to help develop the County Council's information governance policy framework to incorporate the core measures identified in the HMG Information Assurance Maturity Model and ISO 27001. As the County Council's Senior Information Risk Owner, the Corporate Director – Strategic Resources, has continued to chair the Corporate Information Governance Group (CIGG), which meets on a regular basis. CIGG has addressed new and emerging issues during the year as well as coordinating the development of the IG policy framework. In addition, Veritau's auditors have continued to undertake unannounced visits to County Council offices and establishments in order to test

understanding and compliance with the policy framework. As previously reported, these visits have found a variety of potential data security risks. The results have been reported to CIGG and the relevant management.

- 3.6 To assist in the development and maintenance of the County Council's governance arrangements, Veritau's auditors meet with the S151 Officer, Monitoring Officer and other senior officers on a regular basis to identify and address key governance issues and concerns.

4.0 **INTERNAL AUDIT PERFORMANCE MANAGEMENT**

- 4.1 The Accounts and Audit Regulations 2011 require each local authority to conduct an annual review of the effectiveness of its internal audit arrangements, and to report the findings of this review to an appropriate committee. The process is intended to form part of the wider review of the effectiveness of the system of internal control (required to prepare the Annual Governance Statement – AGS). Details of the 2012/13 review are included as a separate report on this agenda.

Veritau Performance

- 4.2 Despite the challenging climate, 2012/13 has been another successful year for Veritau. The company has continued to deliver cost effective internal audit, counter fraud and information governance services to North Yorkshire County Council and the City of York Council together with a number of other public sector bodies in North Yorkshire. These services continue to be valued by the company's clients particularly at a time of significant change.
- 4.3 One of the main priorities for 2012/13 was the establishment of a new company to deliver internal audit services to five of the North Yorkshire district councils. The new company, Veritau North Yorkshire (VNY) commenced trading on 1 April 2012.
- 4.4 Both Veritau and VNY achieved an operating profit before tax in 2012/13. Investment in new services and initiatives has also continued, particularly in respect of counter fraud.
- 4.5 **Appendix 2** details performance against the targets set by the County Council's client officer for 2012/13. **Appendix 3** sets out the targets for Veritau for 2013/14.

5.0 **BREACHES OF FINANCE, CONTRACT AND PROPERTY PROCEDURE RULES**

- 5.1 It is recommended best practice for the Head of Internal Audit to report to the Audit Committee on any breaches of the County Council's Procedure Rules. As in previous years, the majority of identified breaches relate to the Contract Procedure Rules. Details of those breaches identified by internal audit work during 2012/13 are shown in **Appendix 4**.
- 5.2 It should be noted that some of the variations in the type and number of breaches identified between the years can be attributed to the fact that audit work will focus on different risk areas each year. In addition, the content of the CPRs does not remain the same and new rules are introduced whilst others are amended or deleted.

5.3 As a result, what constitutes a breach in 2012/13 may not, in all cases, have been a breach in earlier years. Moreover, an individual contract may 'score' as more than one breach if multiple issues are identified. In most cases it is sufficient to draw the attention of management to the relevant CPR requirement. If a wider training need is identified this will be addressed accordingly. Finally in those cases where the breach identifies a fundamental weakness/deficiency in the CPR this will be addressed separately as part of the ongoing review process for all the County Council's Procedure Rules.

5.4 There were no significant breaches of the Finance Procedure Rules although a number of relatively minor breaches were noted. Examples of typical errors identified included:

- Orders not being issued or being annotated to record details of deliveries;
- Use of personal credit cards to purchase items for schools/establishments;
- Invoices not being adequately checked prior to payment and/or duplicate invoices being paid;
- Income records at establishments not always being fully completed on a timely basis;
- Inventory records not being properly maintained and/or annual stock checks not being carried out;
- VAT not being accounted for correctly and/or appropriate VAT receipts retained;
- Lack of appropriate segregation of duty;
- Security and insurance issues with the storage of cash, credit cards, cheques and other assets;
- Purchasing cards being used by individuals other than the named officer;
- Cheques being pre-signed.

5.5 There were no breaches of Property Procedure Rules identified during the year.

6.0 **2012/13 AUDIT OPINION**

6.1 As noted above, Veritau operated in accordance with the CIPFA Code of Practice during 2012/13. In connection with reporting to an Audit Committee, the Code states that the Head of Internal Audit's 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.

6.2 The overall opinion of the Head of Internal Audit on the controls operated in the County Council is that they provide **Substantial Assurance**. There are no qualifications to this opinion. The only reliance placed on the work of other assurance bodies in reaching this opinion related to computer audit work, which was undertaken on behalf of Veritau by PricewaterhouseCoopers. In giving this opinion attention is drawn to the following significant control issues, which are considered relevant to the preparation of the 2012/13 Annual Governance Statement:

- Further improvements are required to ensure compliance with the County Council's policies for recording, processing and storing personal and sensitive data. Recent audit work has identified continuing poor practice with the handling of documents and information security. A number of breaches have occurred during the year. Whilst none have required disclosure to the ICO, the risks are still not being appropriately managed.
- Further improvements are necessary in respect of the controls associated with adult social care payments. Work undertaken during the year suggests that errors continue to be made, monitoring arrangements are not sufficiently effective, recipients may not always be entitled to the funding and vulnerable service users may be at risk from fraud.
- A number of issues have been identified in respect of the processes followed to let and/or monitor the performance of contracts. Whilst individually none of the issues are significant, there is a continuing need to raise awareness of the correct procedures to follow and to provide information, guidance and training to managers to ensure that effective and timely contract management and monitoring arrangements are operating.

7.0 RECOMMENDATIONS

7.1 Members are asked to:-

- (i) note the overall "Substantial Assurance" opinion of the Head of Internal Audit regarding the internal control environment of the County Council
- (ii) note the findings on the breaches to Contract, Finance and Property Procedure Rules and the actions taken to address these matters.
- (iii) note the performance outturn for 2012/13 and the performance targets for Veritau for 2013/14.

MAX THOMAS
Head of Internal Audit

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3 June 2013

OPINIONS ISSUED IN 2012/13

Report	Directorate/Audit Work Area	Opinion	Period Covered
Sept 2012	Computer Audit	Substantial	1 September 2011 to 31 August 2012
	Health and Adult Services	Moderate	1 September 2011 to 31 August 2012
Dec 2012	Business and Environmental Services	Substantial	1 December 2011 to 30 November 2012
Mar 2013	Contract Audit	Substantial	1 February 2012 to 31 January 2013
	Central Services	Substantial	1 February 2012 to 31 January 2013
	Corporate / thematic audits	Substantial	1 February 2012 to 31 January 2013
	Counter fraud matters	N/A	1 February 2012 to 31 January 2013
Apr 2013	Children and Young People's	Substantial	1 March 2012 to 28 Feb 2013

PERFORMANCE TARGETS 2012/13 OUT-TURN

Target		Actual		
Operational Issues				
1	To deliver 93% of the agreed Internal Audit Plan	30 Apr 2013	94% of the agreed Internal Audit plan completed	✓
2	To achieve a positive customer satisfaction rating of 95%	31 Mar 2013	98.3% customer satisfaction	✓
3	To ensure 95% of Priority 1 recommendations made are agreed	31 Mar 2013	100% of Priority 1 recommendations were agreed.	✓
4	To ensure 95% of FOI requests are answered within the Statutory deadline	31 Mar 2013	97.5% of FOI requests received during the year were responded to within the 20 day deadline.	✓

PERFORMANCE TARGETS 2013/14

Target		
Operational Issues		
1	To deliver 93% of the agreed Internal Audit Plan.	30 April 2014
2	To achieve a positive customer satisfaction rating of 95%.	31 March 2014
3	To ensure 95% of Priority 1 recommendations made are agreed.	31 March 2014
4	To ensure 95% of FOI requests are answered within the statutory deadline of 20 working days.	31 March 2014

SIGNIFICANT BREACHES OF CONTRACT PROCEDURE RULES

The following table summarises the significant breaches of the Council's Contract Procedure Rules, identified by Veritau during 2012/13:

	Schools 2012/13	Schools 2011/12	Schools 2010/11	Other 2012/13	Other 2011/12	Other 2010/11
Quotations not sought or evidence not retained	9	7	16	0	0	1
Quotation/tender opening and recording procedures incorrect	11	18	15	0	0	0
LMS/CP rules waived but no documented or approved case to justify deviation	0	1	2	1	1	3
Failure to consult with Legal Services re contract conditions and signing and/or failure to obtain appropriate approval to proceed with procurement	6	5	0	0	0	0
Lease for equipment entered into without agreement of Finance	0	1	6	0	0	0
Contract not signed and dated by County Council and contractor	0	0	0	0	0	8
No contract in place or key clauses omitted	3	5	2	0	1	0
Correct procurement process not followed or lack of evidence to confirm	1	2	3	1	0	0
Contract expired but not re-tendered or contracts automatically rolled forward	1	1	0	0	0	0
Lowest quotation not selected and selection criteria not documented	0	1	0	0	0	0

	Schools 2012/13	Schools 2011/12	Schools 2010/11	Other 2012/13	Other 2011/12	Other 2010/11
Inadequate advertising	0	0	0	0	0	2
Scoring mechanism not indicated or not submitted to Veritau (for recording)	0	0	0	0	0	6
Contracts not stored in accordance with CPRs	0	0	0	0	2	11
No financial checks or other requisite checks	17	25	0	2	0	0
Failure to comply with all aspects of Rule 18	0	0	0	0	0	0
SCMS not utilised during procurement process	0	0	0	0	0	2
Inadequate contract monitoring	0	0	0	3	1	2
Cost variation forms not completed.	0	0	0	0	0	3
Issues identified with the Gateway process	0	0	0	1	0	2 ²
TOTALS	48	66	44	8	5	40

² It was found that directorates needed to develop a robust process for identifying those procurement exercises which required a 'gateway 4 review' compared to those that could be exempt.