

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 DECEMBER 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 nine month period ended 31 October 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 2013. It should be noted that the 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 a specific directorate, there is no corresponding Statement of Assurance (SoA). Details of the Corporate Risk Register were presented to the Committee in June 2013. There have been no significant changes in the County Council's risk profile since that date.

3.0 WORK DONE DURING THE NINE MONTHS ENDING 31 OCTOBER 2013

- 3.1 A summary of the internal audit reports issued in the nine months since the last report on corporate matters, to the Audit Committee in March 2013, is attached at **Appendix 1**. It should be noted that no Priority 1 issues were identified requiring management action.
- 3.2 Veritau officers have also been involved in a number of other areas relevant to corporate matters during the period, including:
- providing advice on corporate governance issues;

- attend the Functional Procurement Management Team (FPMT) and the Corporate Risk Management Group as required;
- the Client Relationship Manager and the Information Governance Officer have attended the Corporate Information Governance Group (CIGG) – in future the Head of Internal Audit will attend a reconstituted CIGG;
- 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 31/3/13); and
- completion of the audit certificate for the Carbon Reduction Commitment (CRC) Energy Efficiency return prior to its submission to the Environment Agency in July 2013.

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.

One Council Assurance Mapping

3.6 In the earlier part of the year Internal Audit carried out some work to develop an assurance map for the One Council programme. The intention had been to prepare assurance maps for three workstreams. An assurance map for one workstream was prepared. However the One Council programme has since been superseded by the 2020 North Yorkshire initiative. As a result, the audit resource originally allocated to One Council has been re-allocated to support the 2020 North Yorkshire project team.

3.7 A number of lessons have been learnt from this work – particularly concerning the importance of verifying sources of assurance as part of work on the County Council risk register. This is being taken forward as part of our review of the corporate risk management system. The use of assurance mapping as an audit technique will also be further developed.

Value for Money

- 3.8 Veritau considers the effectiveness of the systems for ensuring value for money as a core element in all audit reviews. The intention was to develop a programme of specific value for money reviews, starting this year. To date, one value for money audit has been completed on the Court of Protection/Power of Attorney system (HAS). This raised a number of issues for management to consider. In addition, a number of value for money points were raised in relation to the management of specific contracts and it has been agreed that these will be addressed when the contracts are renewed. Further detail will be included in the internal audit report on Contracts scheduled for consideration by the Committee in March 2014.
- 3.9 Discussions are continuing to identify and agree one or two other suitable areas for review. There is however a need to align any work with other County Council priorities and to focus on those areas which are likely to be of most benefit.

4.0 **AUDIT OPINION**

- 4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the chief audit executive (CAE)¹ should provide an annual report to the board². The report should include:
- (a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)
 - (b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)
 - (c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (ie the control environment)
 - (d) disclosure of any qualifications to that opinion, together with the reasons for that qualification
 - (e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement
 - (f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement 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.

¹ The PSIAS refers to the chief audit executive. This is taken to be the Head of Internal Audit.

² The PSIAS refers to the board. This is taken to be the Audit Committee.

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 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

18 November 2013

CORPORATE AUDIT REPORTS ISSUED IN THE PERIOD ENDED 31 OCTOBER 2013

System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken	
A	Information Governance Compliance	Moderate Assurance	The audit covered a number of potential information security risk areas. Testing was undertaken to determine: <ul style="list-style-type: none"> staff awareness of the importance of information security the adequacy of the procedures for identifying, reporting and investigating potential breaches the extent to which best practice is disseminated. 	April 2013	Overall the arrangements in place for handling potential information security breaches were found to be good. Awareness of the procedures for reporting suspected breaches was particularly strong within CYPs and HAS. However, the audit found weaknesses in the Council's systems for following up potential breaches and for ensuring lessons learned are communicated where appropriate. The audit also found that: <ul style="list-style-type: none"> not all potential information security breaches were notified in accordance with the County Council's policy; investigations were not always carried out within the required timescale; and there appeared to be a lack of awareness of the policy amongst some investigating officers 	<p>Four P2 and one P3 were actions agreed</p> <p>Responsible Officers: Corporate Director – Strategic Resources (as SIRO) and the relevant Directorate Information Governance Champions (DIGCs).</p> <p>All agreed actions are being taken forward as part of the Information Governance strategy and are included in the Corporate Information Governance Group's (CIGG) action plans.</p> <p>DIGCs have reminded key staff about the importance of reporting potential breaches (this is included in regular staff awareness updates) and of the correct procedures for investigating such breaches.</p> <p>The role of the Information Governance team in relation to investigations has also been clarified and arrangements put in place to ensure appropriate cover.</p>
B	Payroll	Substantial Assurance	The audit concentrated on the systems and controls where payments are made through	February 2013	Although the controls were found to be operating well, some weaknesses were identified, as	Two P2 and five P3 actions were agreed

System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
		<p>manual intervention rather than via automated processes.</p> <p>These payments include;</p> <ul style="list-style-type: none"> • ‘thank you’ payments; • honorarium payments; • increments paid outside of My View; • First Aid allowances; • Payments to supply teachers; and • telephone allowances. 		<p>follows;</p> <ul style="list-style-type: none"> • some additional payments made did not comply with the County Council’s policies; • payments were not always being applied consistently; • there was a lack of a central record for certain payments; • some payments were not being correctly authorised; • supporting information regarding certain payments was not retained. 	<p>Responsible Officer: Head of Business Support Shared Services</p> <p>Following a reorganisation within employee support services (in April 2013), changes have been made to the processes for administering manual payments. These changes will allow closer monitoring of additional payments.</p> <p>Implementation of the agreed actions is being reviewed as part of the current 2013/14 payroll audit</p>
C	Partnership Governance	Substantial Assurance	<p>The audit examined the governance arrangements established by the County Council in respect of a number of key partnerships. Testing was undertaken to confirm whether;</p> <ul style="list-style-type: none"> • there was evidence that the partnerships in question were providing a benefit to the County Council; • all risks had been adequately considered before the partnership was entered into; • the roles and responsibilities of each 	<p>April 2013</p> <p>Overall there were appropriate governance arrangements in place for the partnerships reviewed.</p> <p>All of the partnerships provided a benefit to the County Council (or were established for a statutory purpose). Each partnership also had an appropriate agreement in place setting out the respective roles and responsibilities of each partner. A risk assessment was undertaken before each partnership was established and monitoring of the partnership risks is taking place.</p> <p>However the following control weaknesses were identified:</p> <ul style="list-style-type: none"> • in some cases data sharing 	<p>One P2 and one P3 actions agreed.</p> <p>Responsible Officers: Assistant Director – Policy and Partnerships</p> <p>Each partnership will be reviewed to confirm whether data sharing protocols are required and these will be developed where necessary. Proportionate specific risks assessments will also be undertaken and the results recorded.</p>

	System/Area	Audit Opinion	Area Reviewed	Date Issued	Comments	Action Taken
			<p>partner had been adequately established;</p> <ul style="list-style-type: none"> • identified partnership risks were being adequately monitored and managed; and • data sharing protocols were in place to ensure personal and sensitive data is protected and only shared in an appropriate manner. 		<p>protocols were not included in the governance documents;</p> <ul style="list-style-type: none"> • although generic risk assessments had been completed in all cases, for some partnerships a more detailed specific risk assessment would have been beneficial. 	
D	Savings Delivery	High Assurance	<p>The objective of the audit was to provide assurance that possible risks to the control environment arising from savings initiatives had been adequately assessed and mitigating actions put in place if necessary. The audit reviewed two savings initiatives from each directorate. Each initiative was selected from the relevant directorate savings plans for 2012/13. The audit reviewed what actions had been put in place to achieve the planned savings; confirmed that the risks arising from the proposed changes had been properly identified; and evaluated the likely effectiveness of the risk management strategy put in place.</p>	April 2013	<p>Good arrangements had been put in place to evaluate the potential control implications of each of the planned savings and to take remedial action were necessary to mitigate any identified risks.</p>	N/A

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>