

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

4 DECEMBER 2014

INTERNAL AUDIT WORK FOR THE BUSINESS AND ENVIRONMENTAL 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 30 November 2014 for the Business and Environmental Services (BES) directorate 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 the BES Directorate, the Committee receives assurance through the work of internal audit (as provided by Veritau), as well as receiving a copy of the latest directorate risk register and the relevant Statement of Assurance (SoA).
- 2.2 In line with recent practice, this agenda item is considered in two parts. This first report considers the work carried out by Veritau and is presented by the Head of Internal Audit. The second part is presented by the Corporate Director and considers the risks relevant to the directorate and the actions being taken to manage those risks.

3.0 WORK DONE DURING THE YEAR ENDED 30 NOVEMBER 2014

- 3.1 Details of the work undertaken for the directorate and the outcomes of these audits are provided in **Appendix 1**.
- 3.2 Veritau has also been involved in carrying out a number of other assignments for the directorate. This work has included;
- Providing advice on various control issues;
 - Auditing and certifying a number of grant returns such as the Local Transport Plan, Fuel Rebate Summary Claims, the Local Sustainable Transport Fund (LSTF) Grant and the Local Authority Bus Subsidy Grant. We review relevant supporting information to ensure expenditure had been incurred in accordance with grant conditions;
 - Meeting regularly with BES management and maintaining ongoing awareness and understanding of key risk areas such as the long term waste service contract, highways maintenance contract and BALB bypass project.

- 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**. Some of the audits undertaken in the period focused on the review of specific risks as requested by management so did not have an audit opinion assigned to them.
- 3.4 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau follow up all agreed actions on a regular 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 with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

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 framework of governance, risk management and control operating in the Business and Environmental Services directorate is that it provides **substantial assurance**. There are no

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.

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 Business and Environment Services Directorate is both adequate and effective.

MAX THOMAS
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

19 November 2014

BACKGROUND DOCUMENTS

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

Report prepared by Stuart Cutts, Internal Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 30 NOVEMBER 2014

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	North Yorkshire Local Transport Body	High Assurance	<p>The primary role of the North Yorkshire Local Transport Body (NYLTB) is to decide on the allocation of major transport scheme funding and oversee effective delivery of those schemes. We have completed two separate audits in the last year.</p> <p>Firstly, we reviewed the published Assurance Framework (which governs the operations of the LTB) to consider the extent to which recommended guidance was being followed. The second audit focused on the processes for compiling the list of potential transport schemes and a review of the arrangements in place to manage the key risks relating to one of those schemes (the Leeds – Harrogate – York rail improvement scheme).</p>	December 2013 and May 2014	<p>The audits identified good progress had been made in developing and implementing the Assurance Framework. The relevant frameworks had been approved by both NYLTB and the Department of Transport.</p> <p>All potential transport schemes for the LEP were considered using a consistent assessment tool. All schemes were fully documented and recommendations for each scheme reviewed by BES Management prior to being considered and approved by the NYLTB in November 2013.</p> <p>At the time of the audit, the ‘Leeds – Harrogate - York’ Rail Improvement Scheme was at the early stages of planning. A suitable project timeline, using national guidance for developing rail improvement schemes (GRIP) has been developed.</p>	No actions identified in either report.

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B	Highways Maintenance Contract	Moderate Assurance	<p>The Highways Maintenance Contract (HMC) covers the provision of all aspects of the highways service. The service includes highway and bridge maintenance, winter maintenance, maintenance of the County Council's fleet of vehicles, street lighting maintenance, improvement works, gully emptying, grass cutting, emergency provision and surface dressing of the network.</p> <p>The annual value of the contract is approximately £43m. The contract was awarded to Ringway Infrastructure Services Ltd (Ringway) and commenced in April 2012. The audit reviewed a range of areas and controls in detail including:</p> <ul style="list-style-type: none"> • the contract management arrangements; • performance and quality assurance arrangements; • the information interface between key County Council and Ringway systems; • payment authorisation; • the accuracy of the 'pain and gain' calculations under the contract. 	December 2013	<p>Progress had been made in developing suitable arrangements to manage the contract. Regular management meetings at strategic, tactical and operational levels are now held. Good progress has also been made to resolve issues with the value of payments claimed each month by Ringway. The following issues were however noted:</p> <ul style="list-style-type: none"> • the Ringway Operations Hub was not processing orders for work as envisaged under the contract. Management had been trying, with limited success, to satisfactorily resolve this issue with Ringway; • the link between the General Ledger (Oracle), Symology and the Ringway E-Serve system was not automatically interfacing; • there was no reliable performance information concerning the GMU operatives; • Quality Assurance checks for GMU and planned maintenance were not being performed in line with HMC requirements; • there was no suitable audit trail to support some contract performance indicators. The 	<p>Five P2 and Four P3 actions were agreed</p> <p>Responsible Officer Assistant Director, H&T</p> <p>A number of these actions have been included by the Council as part the 'Project Smarter' Action Plan which seeks to address all known and significant areas for improvement in a robust and consistent way with Ringway.</p> <p>Significant developments have taken place in the Operations Hub and an ICT development plan has been agreed with Ringway that will see significant improvements in works ordering and information sharing between client and contractor.</p> <p>Automatic interfacing is to be introduced, linked to the 2020 Finance Project and the Oracle System upgrade.</p> <p>A number of process maps have been introduced to ensure the adoption of best practice and to achieve greater consistency across the county.</p>

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		<p>The audit did not examine winter maintenance arrangements as these were subject to a separate audit in 2014/15.</p>		<p>most efficient method to provide the data was also not always being used. Particular weaknesses were noted with PPI SL02 (Street Lighting – Percentage of Street Lighting Bulk Change completed);</p> <ul style="list-style-type: none"> • some orders were not being processed by Ringway, and the reasons for these delays was not always clear; • there was insufficient evidence to support the actual scheme costs used to calculate the 'pain and gain' under the contract. • the final costs for 'pain and gain' schemes were being agreed outside the period stated in the contract. <p>NOTE: a further follow up audit of the highways maintenance contract is currently underway. The audit includes a review of the specific actions taken to date to address these issues.</p>	<p>The process maps have Quality Control Points (QCPs) identified on them, which are being consolidated into a joint control manual. A Rapid Performance Improvement Workshop has been carried out with Ringway looking at delivering efficiencies in GMU and Planned Maintenance works as part of the County Council's 2020 North Yorkshire programme.</p> <p>An agreed 'Training Matrix' has been introduced which monitors the training needs across the hNY partnership. A programme of training is carried out linked to the matrix and significant recent initiatives include training on contract fundamentals covering payment, valuation and sign-off along with a number of strategic and local Value Added Workshops with associated action plans.</p> <p>A CPI Validation Process has been introduced that seeks to ensure that the production and validation of CPI information is more robust.</p>

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C	Bedale, Aiskew and Leeming Bar (BALB) By-pass	Substantial Assurance	<p>This was the second in a number of planned audits over the life cycle of the project. The audit reviewed the extent to which:</p> <ul style="list-style-type: none"> • the Council's Gateway processes had been followed; • appropriate contract and risk management arrangements were in place or planned; • relevant lessons from previous significant procurement exercises had been considered <p>The next audit of the project is planned to take place between January and March 2015.</p>	February 2014	<p>The expected process set out in the guidance for Gateway Stages 1B, 2A and 2B had been followed. All relevant paperwork and key decisions have been appropriately authorised. We also found evidence of 'lessons being learnt' from previous procurements. Project and risk management arrangements were also being developed.</p> <p>The audit identified the need to clarify scheme governance arrangements so as to avoid possible confusion between the three project managers (NYCC, Jacobs and the proposed contractor). In addition, the existing contract with Jacobs expires on 31 March 2016 so consideration needs to be given to the arrangements after this date to ensure the effective delivery and closedown of the project.</p>	<p>One P2 and two P3 actions were agreed.</p> <p>Responsible Officer Major Projects Manager, Highways & Transportation</p> <p>The Council is following an industry standard 'NEC3' contract. There will also be an on site project risk register kept updated on a daily basis. Scheme governance arrangements will also include relevant risk and project management areas.</p> <p>Project Management arrangements with Jacobs and other parties were to be fully defined. The financial limits were also to be defined as part of the future governance arrangements for the scheme.</p>
D	Weighbridges	No opinion given	Changes had been proposed to convert the weighbridge at Whitby Recycling Centre from one that was manually operated to a fully automated system. The transfer station is operated by Yorwaste under a contract. BES Management requested an audit review of the new system to ensure appropriate controls were	February 2014	A site visit was arranged. The proposed changes were discussed with officers and advice given as required.	No actions identified.

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		in place.				
E	Flood Risk Management 2013-14	Substantial Assurance	April 2014	<p>The Council has a number of responsibilities as a Lead Local Flood Authority. A key requirement has been to develop a Flood Risk Strategy and Action Plan.</p> <p>The audit reviewed the process followed to prepare the Flood Risk Strategy, including consultation with key stakeholders.</p>	<p>At the time of the audit, a draft Flood Risk Strategy had been prepared. The draft Strategy was subject to consultation with partners. A draft policy, action plan and executive summary had also been produced. These documents were to be further reviewed and finalised in 2014/15. Initially the County Council had planned to complete this work in 2013/14. However, the demands of the winter floods had caused some delays in the process. As work is still ongoing a further audit has been scheduled in 2014/15.</p>	No actions identified.
F	Waste Management - Income & Charging	No opinion given	November 2014	<p>An audit review of the newly introduced system to charge for the disposal of hardcore, rubble and plasterboard at Waste Recycling Centres.</p>	<p>The new system was found to have adequate controls in place.</p>	No actions identified.
G	Local Enterprise Partnership	Substantial Assurance	November 2014	<p>Local Enterprise Partnerships (LEPs) comprise of local businesses working in partnership with a combination of local authorities. The County Council is part of the York, North Yorkshire & East Riding Local Enterprise Partnership. It is also the Accountable Body for the LEP</p>	<p>The Council has supported the LEP to develop the initial governance frameworks and arrangements. Overall, we found a high level of awareness during the audit of the various challenges facing all parties. We identified the following:</p> <ul style="list-style-type: none"> • A key challenge for the County 	<p>One P2 and Five P3 actions were agreed</p> <p>Responsible Officer Assistant Director Economic Partnership Unit Corporate Director Business and Environmental Services</p>

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		<p>partnership and was instrumental in establishing and resourcing the LEP secretariat.</p> <p>The audit reviewed the governance arrangements established to provide assurance to the County Council as the Accountable Body and the LEP to effectively manage business operations.</p>		<p>Council is the need to continue to provide effective support to the LEP at a time of significant organisational change;</p> <ul style="list-style-type: none"> • risk and performance management arrangements need to be effective to support the future needs of the LEP. These high level arrangements will help to provide assurance for both the LEP and the County Council as Accountable Body; • monitoring and reporting arrangements established to provide assurance that the terms and conditions on which grants and other monies have been awarded need to reflect the number and increasingly diverse range of schemes the LEP is managing; • some minor improvements were also required to procedures and record keeping for key decisions made by the LEP. 	<p>The Council is aware of the significant risks on the LEP and service delivery. The matter has been flagged as a Red Risk on the BES risk register and so will be managed as part of those arrangements.</p> <p>A full review of the structures of the LEP is to be prioritised and completed before the end of the financial year. The review will carefully consider future needs.</p> <p>Improved decision making arrangements are being developed and will be introduced.</p>

Audit Opinions and Priorities for Actions

Audit Opinions	
<p>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.</p> <p>Our overall audit opinion is based on 5 grades of opinion, as set out below.</p>	
Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	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.
Reasonable Assurance (previously moderate)	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.
Limited Assurance	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.
No Assurance	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.

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