

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 MARCH 2015

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 2015 for the Central Services 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 Central Services 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 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 31 JANUARY 2015

- 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;
 - Providing advice and comment as part of the review of Financial Procedure Rules;
 - Providing support to the Finance 2020 project including attendance at various project groups and providing advice and support to a variety of specific project leads;
 - Meeting regularly with Central Services management and maintaining ongoing awareness and understanding of key risk areas.

- 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 Central Services directorate is that it provides **substantial assurance**. There are no qualifications to this 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.

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

16 February 2015

BACKGROUND DOCUMENTS

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

Report prepared by Ian Morton, Internal Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 JANUARY 2015

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Creditors	Substantial Assurance	<p>The audit reviewed key controls operating in the creditors system, particularly those controls that ensure:</p> <ul style="list-style-type: none"> • duplicate payments are not made; • payments cards are used in accordance with policy; • bank account changes are not made without undertaking the necessary verification checks to ensure they are genuine; • new suppliers are not created on the system without undertaking the necessary verification checks to ensure they are genuine; • incorrect and/or unauthorised payments are not made; • payments are processed in a timely manner. 	June 2014	<p>Controls were generally effective although there were some areas requiring improvement.</p> <p>Although verification checks are being undertaken when processing bank account changes these checks are not properly evidenced in the majority of cases.</p> <p>A number of issues were identified in relation to the use of Barclaycards. These included applications not following the approved process, minimal review of infrequently used cards, and cards in the name of former employees which had not been cancelled,</p> <p>Controls to prevent duplicate payments are not sufficiently effective and there is a time consuming process in place to identify potential errors.</p>	<p>One P2 and six P3 actions were agreed</p> <p>Responsible Officer Assistant Chief Executive (Business Support)</p> <p>Additional evidence will be maintained to show that bank account changes have been verified.</p> <p>The authorisation of Barclaycards is to be reviewed and a 6 monthly review of card usage is to be introduced. The 'leavers' checklist is to be amended to include Barclaycards.</p> <p>Discussions are taking place with data providers to make the review of duplicate payments more effective. Changes relating to the new Oracle system should assist in reducing duplicate payments, particularly around increased requirements for purchase order numbers.</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
B	Debtors	Substantial Assurance	<p>The audit focused on credit control and the recovery of aged debts.</p>	May 2014	<p>Controls were generally effective although there were some areas requiring improvement, including:</p> <ul style="list-style-type: none"> • where debts are in dispute those disputes are not being resolved promptly; • in some areas there are delays in the raising of invoices; • Oracle Financials is not able to report on the full extent of amendments processed to accounts for credits notes and/or debts written off. 	<p>Eight P3 actions were agreed</p> <p>Responsible Officer Assistant Director CASU</p> <p>Discussions held with service departments to highlight the importance of raising debts and resolving disputes promptly. The new Oracle system will include a new reporting tool that will enable the required reports to be produced.</p>
C	Feeder Systems	Substantial Assurance	<p>The audit reviewed the processes in place to ensure that financial data transferred electronically to Oracle Financials is accurate and complete. Testing was carried out on two accounts payable interfaces; CLAS and SPLS, five general ledger interfaces; Payroll, Pensions, Pension adjustments, YPO and BAFEY and the accounts receivable interface SISP. The following key controls were reviewed:</p> <ul style="list-style-type: none"> • all feeder systems produce control totals which are checked against the relevant Oracle input totals; • data from the feeder system is 	March 2014	<p>Controls were generally effective although there were some areas requiring improvement.</p> <p>It was found that no formal reconciliation was being carried out between Softbox (CLAS) and Oracle Financials. Adjustments may also be made to the interface after the initial batch import.</p> <p>In addition, the present system of keeping documentation on file to prove interfaces have been authorised and carried out correctly is inconsistently applied. Some documentation is held as hard copy and on occasions could not be located.</p>	<p>Two P2 and two P3 actions were agreed</p> <p>Responsible Officers Systems Manager Senior Finance Manager</p> <p>A formal reconciliation of the CLAS interface will now be carried out. The system has been improved to ensure that all interfaces are now being recorded. A checklist will also be introduced for each interface to determine what documentation should be available on file and whether or not the records could be</p>

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		<p>authorised prior to transfer to Oracle;</p> <ul style="list-style-type: none"> rejection reports are produced and cleared promptly. 			maintained electronically.	
D	Capital Accounting	High Assurance	The audit reviewed the capital accounting system, including the controls for ensuring that assets are correctly recorded, valued and depreciated. The reconciliation of capital receipts to Oracle Financials was also examined.	March 2014	Effective controls were found to be in place.	No actions identified.
E	Local Welfare Assistance Scheme	Substantial Assurance	From April 2013, Community Care Grants were replaced by a new local assistance scheme funded by a fixed grant from the Department for Work and Pensions. The grant is currently approximately £793k pa. Applicants must be aged 16 years or over, resident in North Yorkshire and be in receipt of a means-tested benefit or have limited household income and capital. Applications are made through approved agents that regularly assist the most vulnerable. Applications should be supported by appropriate evidence and then submitted to NYCC's contractor, Charis, for checking and processing prior to payment.	January 2015	<p>Controls were generally effective. Applications for assistance were supported by appropriate evidence, and Charis was checking the evidence provided prior to payment being made. However, the security features relating to some of the payment methods used could be improved.</p> <p>Charis is providing monthly reports to Central Services regarding the number and value of applications that have been received and approved. Charis is correctly undertaking a 5% management check of on-line applications processed. However, Charis, do not use a standard checklist for this purpose.</p>	<p>Two P2 actions were agreed</p> <p>Responsible Officer Project Officer, Central Services</p> <p>Discussions have been held with Charis in order to implement an appropriate checklist.</p> <p>The governance group will continue to review the arrangements around the provision of vouchers and explore alternative options for food and clothing needs.</p>

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			<p>The audit examined the operation of the Scheme. In particular, testing was undertaken to ensure that:</p> <ul style="list-style-type: none"> • awards are only paid to applicants that meet all the qualifying criteria; • adequate evidence is available to support applications made and only correct payments are made; • payments to successful applicants are made in the most appropriate manner. 			
F	Members' Allowances	No opinion given	<p>The audit reviewed a sample of mileage and subsistence claims submitted by Members to ensure that they were reasonable, properly completed and supported by receipts or other evidence. Where relevant, claims were also cross checked with the corresponding claims submitted to other councils or public bodies.</p>	June 2014	<p>The number of errors and discrepancies found continues to be small in relation to the overall number of claims submitted by Members. The level of detail supporting most travel and subsistence claims submitted via My View is however still insufficient to enable journeys to be properly verified and this therefore needs to be improved.</p>	<p>Two P2 actions were agreed</p> <p>Responsible Officer Corporate Director - Strategic Resources</p> <p>A Members' seminar was held on 14 May 2014 including a specific session dedicated to reminding Members of the importance of claiming travel and subsistence correctly. This session covered allowable expenses, approved duties where mileage could be claimed, duties where claims were not allowable and the potential pitfalls of making claims. The training also</p>

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						covered Members who are entitled to claim from two or more public bodies and the importance of retaining VAT receipts.
G	Payments for Energy	Substantial Assurance	<p>The Council uses energy to heat and light council buildings and schools and to illuminate street lighting. The different energy sources include electricity, gas, oil, coal and biomass fuels. Electricity and gas are however the main types of fuel used. Annual expenditure is approximately £5.3m for electricity (including £2m for street lighting) and £4.3m for gas. Both fuels are purchased through framework contracts organised by the Yorkshire Purchasing Organisation (YPO). The current electricity framework contract runs until 31 March 2015. The procurement process for the new contract has now been concluded and the supplier will remain NPower. The gas framework contract commenced in June 2013 and runs until March 2017. The supplier is Centrica. Ensuring the Council only pays for energy in line with these contracts and has arrangements in place to ensure value for money for</p>	July 2014	<p>The procurement of energy for use by the Council and its partners follows the government's recommended best practice. The processes used by the Energy Team indicate the Council is obtaining good value for money when purchasing gas and electricity, whilst mitigating the risk of increasing energy prices. The audit found that regular meter readings were not being supplied to the Energy Team by some council sites. The council also has a plan to reduce carbon emissions. This plan includes specific targets for certain services within the Council, some of which are not currently being achieved. Further work is therefore required to develop the required information systems and raise awareness of this issue.</p>	<p>One P2 and one P3 action were agreed</p> <p>Responsible Officer Sustainability Manager - Property & Procurement.</p> <p>The Council's ability to achieve targets in respect of the reduction in cost of energy use in respect of street lighting and business mileage will be considered as part of the Energy Team's review that will conclude at the end of 2014</p> <p>Regularity of meter readings will need to be considered as part of the wider review of property management that is currently underway and particularly the provision of fully 'serviced property'. The Energy Team will continue to issue reminders.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>energy expenditure are key financial considerations. The audit examined the procurement process followed to arrange the framework contracts. The following key controls were also tested:</p> <ul style="list-style-type: none"> • monitoring of energy usage and costs to ensure payments are in accordance with the contract rates; • the calculation and supply of estimates of annual usage so as to avoid unnecessary penalties; • the programme of measures designed to reduce the council's future energy usage. 			
H	North Yorkshire Pension Fund – income	High assurance	The audit reviewed the key controls covering income to the Pension Fund. Testing was undertaken to ensure the correct contributions are received from member bodies and within the required timescales. The process for recovering the cost of any pension strain (arising from early retirement) was also examined.	April 2014	Effective controls were found to be in place although invoices to employers for the cost of any pension strain need to be raised more quickly.	<p>Two P3 actions were agreed</p> <p>Responsible Officer Principal Accountant – North Yorkshire Pension Fund</p> <p>Invoices for pension strain costs will now be raised quarterly.</p>
I	North Yorkshire Pension Fund - expenditure	High assurance	The audit reviewed the key controls covering Pension Fund expenditure. Testing was	April 2014	Effective controls were found to be in place.	No actions identified.

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			undertaken to ensure payments were correctly calculated, authorised and recorded.			
J	North Yorkshire Pension Fund – payments to pensioners	Limited assurance	The audit was requested by management in response to a number of reported issues with payments to pensioners. There are approximately 16,000 current pensioners and a further 26,000 deferred pensioners. The pension payroll service is provided by Employment Support Services (ESS). Instructions and changes are notified to ESS by the Pensions Administration team.	April 2014	At the time of the audit, pension overpayments were not being recovered effectively. In addition, amendment forms sent to ESS were not being processed in a timely manner. Since the audit performance has improved significantly.	<p>One P1 and one P2 action were agreed</p> <p>Responsible Officer Head of Employment Support Shared Services</p> <p>A system has been put in place to ensure all notifications of pensioner deaths are acted upon promptly to minimise potential overpayments and prompt recovery action is taken for all overpayments identified.</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.