

## NORTH YORKSHIRE COUNTY COUNCIL

## AUDIT COMMITTEE

3 DECEMBER 2015

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 2015 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.
- 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 30 NOVEMBER 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 ad-hoc advice on various control issues;
  - Auditing and certifying a number of grant returns such as the Local Transport Plan, the Local Sustainable Transport Fund (LSTF) Grant, the Pothole Fund 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 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**. Where the audits undertaken focused on value for money or the review of specific risks as requested by management then no audit opinion will have been given.

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)<sup>1</sup> should provide an annual report to the board<sup>2</sup>. 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

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

<sup>2</sup> 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 2015

**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 2015

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
A	Bedale, Aiskew and Leeming Bar (BALB) by-pass High Assurance	<p>The BALB by-pass is a significant scheme funded by the Department of Transport and the County Council. Following a procurement exercise in 2014, the construction contract was awarded to Wills Brother Civil Engineering Limited.</p> <p>This audit review was the third in a number of planned audits over the life cycle of the project. The audit assessed the extent to which:</p> <ul style="list-style-type: none"> <li>• suitable Governance arrangements were in place</li> <li>• risk and project management plans were being regularly reviewed and updated</li> <li>• management were satisfied that risk reduction actions were being effective</li> <li>• the expected outcomes of the scheme were being delivered in a timely manner</li> </ul>	April 2015	<p>The audit work reviewed the agreed management actions from the audit report issued in February 2014. We found all actions had been completed satisfactorily.</p> <p>Effective project and risk management arrangements were found to be in place. One risk associated with the need to ensure continuing project management support was identified. It was recommended that this risk was added to the Project Risk Register.</p>	<p><b>One P3 action was agreed.</b></p> <p><b>Responsible Officer</b> Major Projects Manager, Highways &amp; Transportation</p> <p>Although the risk was considered to be low it was added to the Project Risk Register.</p>
B	Winter Maintenance Substantial Assurance	Payments are made to Ringway Infrastructure Services (RIS) on the	August 2015	Payments for winter maintenance have been formally reviewed by the	<b>One P2 action was agreed.</b>

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
		<p>basis of terms included in the Highways Maintenance Contract (HMC), which has been in place since 2012. These payments are reviewed and authorised by officers within the BES directorate.</p> <p>The audit reviewed the following areas:</p> <ul style="list-style-type: none"> <li>• whether the payment terms and associated obligations included within the HMC 2012 contract in respect of the winter maintenance service are sufficiently clear</li> <li>• whether changes in the schedule of rates and method of measurement agreed by the Contract Administrator are properly communicated to relevant officers.</li> </ul>		<p>Commercial Services Unit (CSU) in accordance with the contract. A difference in interpretation led to a disagreement in respect of payments for 2012/13 but this has been resolved.</p> <p>The audit recommended that such issues should be logged centrally and retained for inclusion within the next tendering exercise to be undertaken in respect of the Highways Maintenance Contract.</p>	<p><b>Responsible Officer</b> Head of Commercial Services</p> <p>Anomalies with the existing contract are being logged by the CSU team and will be taken into account when the tender documents for the next contract are produced.</p> <p>Contract clarifications and guidance notes are regularly distributed by CSU to all relevant staff to ensure that any changes are consistently applied.</p>
C	Highways Maintenance Contract	Reasonable Assurance	October 2015	<p>The audit found significant work was still being undertaken to address the remaining issues which were preventing the contract operating as envisaged.</p> <p>The audit noted that RIS was still not meeting all of the targets set under the contract. Client staff had found it difficult to validate some of the performance management data and it</p>	<p><b>Four P2 actions were agreed</b></p> <p><b>Responsible Officer</b> Head of Commercial Services</p> <p>Management and Ringway have completed the review of the Contract Performance Indicators and a new framework has been in operation since April 2015.</p>

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		<p>surface dressing of the network.</p> <p>The annual value of the contract in 2014/15 was £43m. The contract was awarded to Ringway Infrastructure Services Ltd (RIS) and commenced in April 2012.</p> <p>The audit reviewed a number of areas including:</p> <ul style="list-style-type: none"> <li>• performance monitoring</li> <li>• the Contractor Self Evaluation process and the adequacy of action plans and agreed improvements</li> <li>• the extent to which BES monitor the progress made by RIS to complete Rectification Action Plans</li> <li>• the processes in place to ensure RIS agree target costs at least 4 weeks in advance of a scheme starting.</li> <li>• the mechanisms in place to ensure the calculation of performance data is correct.</li> </ul>		<p>was noted that management had agreed with RIS to review the number and type of performance indicators.</p> <p>Figures presented to the Operational Management Group in March 2015 showed significant differences between the performances of each area office. Best practice needs to be identified so all areas are performing effectively and consistently.</p> <p>Reliable performance information on Basic Maintenance works carried out by the General Maintenance Units is not yet available. It is accepted this performance is therefore currently difficult to measure accurately.</p> <p>In previous audit work some weaknesses in the system for Pain and Gain calculations were identified. This audit found the Pain and Gain calculation for 2012/13 had been agreed but not formally signed off. The 2013/14 calculation remained outstanding.</p> <p>The 2013/14 audit findings noted an intention for key systems to automatically interface. Whilst some progress had been made, full automatic interfacing between key systems remained a work in progress at the time of the 2014/15 audit.</p>	<p>The updated performance management framework aims to lead to a less onerous and time consuming process, whilst providing sufficient and more relevant information on performance.</p> <p>NYCC and Ringway have agreed and developed a new system of delivering basic maintenance works. This will aim to ensure efficient works were delivered in line with NYCC inspection manual. The new system of works ordering will seek to standardise work instructions throughout the county, this will enable the performance of front line services to be recorded and managed more effectively.</p> <p>The 2012/13 Pain and Gain calculation was finalised during October 2014. The earliest date that this could have been finalised was May 2014. Management and Ringway continue to look at ways to speed up the process.</p>

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
D	Vehicle Usage	<p data-bbox="427 309 562 363">Substantial Assurance</p> <p data-bbox="613 309 1039 612">The County Council uses a number of vehicles to undertake service operations. The vehicles used include vans, cars and minibuses, and these are procured under a number of lease agreements. The Integrated Passenger Transport Service (IPT) is responsible for monitoring the condition and age of the vehicle fleet.</p> <p data-bbox="613 651 965 673">The audit examined whether:</p> <ul data-bbox="613 715 1021 1299" style="list-style-type: none"> <li data-bbox="613 715 1021 801">• the procurement of vehicles complies with Council's policy and procedures</li> <li data-bbox="613 839 1021 986">• there is a rigorous assessment process to determine the number of vehicles the Council requires prior to each procurement exercise</li> <li data-bbox="613 1024 1021 1139">• vehicle usage is effectively managed, to prevent the unnecessary leasing of additional vehicles</li> <li data-bbox="613 1177 1021 1299">• there is an effective system in place to record all arrivals, disposals, and current vehicles used by directorates</li> </ul>	November 2015	<p data-bbox="1258 309 1697 549">Overall the procurement process for vehicles within the IPT service is robust and complies with Council policies and procedures. Officers within the IPT service ensure all financing options are considered so the most economically advantageous one to the Council can be selected.</p> <p data-bbox="1258 587 1697 673">The audit noted some improvements that could be made to current procedures, including:</p> <ul data-bbox="1258 715 1711 1299" style="list-style-type: none"> <li data-bbox="1258 715 1688 801">• obtaining mileage readings for all vehicles to enable usage to be more effectively monitored</li> <li data-bbox="1258 839 1711 954">• using exception reports produced from the 'Masternaught' vehicle monitoring system to identify low or nil usage vehicles</li> <li data-bbox="1258 992 1711 1139">• developing a list of vans which can be made available to other directorates when not otherwise in use (as an alternative to short term hire)</li> <li data-bbox="1258 1177 1666 1299">• extending the use of tracker devices to enable the location, movement and mileage of fleet vehicles to be monitored.</li> </ul>	<p data-bbox="1749 309 2114 363"><b>Three P2 actions and one P3 action were agreed</b></p> <p data-bbox="1749 402 2002 488"><b>Responsible Officer</b> Team Leader – Fleet Management.</p> <p data-bbox="1749 526 2069 705">Masternaught reports on mileage and usage will be produced and reviewed. Instances of low use/low mileage will be fed back to relevant user departments.</p> <p data-bbox="1749 743 2114 858">IPT Fleet Management will contact all user departments and are to discuss the findings in the audit more widely.</p> <p data-bbox="1749 896 2114 983">All vehicles should be fitted with tracking devices and front facing cameras during 2016.</p>

### Audit Opinions and Priorities for Actions

<b>Audit Opinions</b>	
<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>	
<b>Opinion</b>	<b>Assessment of internal control</b>
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	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.

<b>Priorities for Actions</b>	
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.