

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 MARCH 2016

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 2016 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.
- 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 2016

- 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 (including a review of fraud risks associated with Blue Badges);
 - Providing advice and comments 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

12 February 2016

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 2016

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken	
A	Emergency Planning/ Service Continuity	Substantial Assurance	The audit was a health check of progress made to implement key actions identified in the previous audit. These covered: <ul style="list-style-type: none"> the completion of documentation and the use of a standard format. management buy in at directorate level and training within directorates the collation of corporate risks and corporate priorities. 	June 2015	Not all of the agreed actions from last year's audit have been achieved in the timescales given, although good progress has been made in refreshing the council's approach to business continuity. There is good evidence that the Emergency Planning Unit (EPU) are working towards the remaining incomplete actions. A detailed business continuity policy is not in place and the current arrangements therefore do not provide a comprehensive framework for business continuity management.	One P2 action was agreed Responsible Officer Senior Emergency Planning Officer The policy will be updated to provide the required framework
B	Members Allowances	No opinion given	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.	June 2015	The absence of sufficient detail on claims submitted using MyView meant it was difficult to verify journeys and/or to confirm that mileages claimed were reasonable. This also meant that claims could not easily be compared to claims for attending meetings at other public bodies.	Two P2 actions were agreed Responsible Officer Corporate Director - Strategic Resources As a result of the lack of details recorded by some members when completing their claim forms, the Corporate Director – Strategic Resources has requested that

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken	
					additional audit testing be carried out on claims and a further report produced. The Council will fully respond to the findings when all work has been completed.	
C	Debtors	Substantial Assurance	The Council raises approximately 59,000 invoices each year. The scope of the audit included examining whether: <ul style="list-style-type: none"> effective action was being taken for debts over 30 days old in accordance with the procedures set out in the Finance Manual reasons existed where action had not been taken on overdue debts or for other delays in recovery debts that have been written off have been done so in line with the procedures set out in the Finance Manual. 	August 2015	Procedures for monitoring debts were found to be generally effective. Where there had been delays in recovery suitable reasons existed and these were well documented. Debts were written off in line with agreed procedures. In some areas delays in raising invoices were identified. These delays may impact on the Council's ability to recover amounts due. It was also found that some payroll overpayments had been recovered using debtors accounts which may not be the most efficient method for recovering this type of debt.	One P2 and one P3 action was agreed Responsible Officer Credit Control Manager The need to raise invoices promptly has been highlighted with the relevant directorates. A report will be prepared for Finance SRMT outlining the possible issues in raising debtors accounts for payroll overpayments.
D	Creditors	Substantial Assurance	Approximately 235,000 invoices were processed through the Creditors system in 2013/14. Due to the impending introduction of the new version of Oracle and the expected system changes, the scope of	August 2015	There is a detailed process for verifying changes to supplier bank accounts. However these checks are not always completed or properly documented.	Two P2 and one P3 action were agreed Responsible Officer Business Support Manager

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>this audit was limited to examining whether:</p> <ul style="list-style-type: none"> • processes for changes to bank account details are in place and effective • goods ordered via the Lagan/online form are placed in line with the procedures set out in the Finance Manual and that the related transactions and processes are completed in a timely and efficient manner • changes to the Barclaycard process agreed following the previous audit have been implemented effectively. 		<p>The Lagan system and online order submission form does not prevent employees from placing orders in somebody else's name and goods receipting in this system does not consistently ensure that goods have actually been received prior to payment.</p> <p>The agreed changes to the Barclaycard procedures have been implemented.</p>	<p>Checks to verify changes to bank account details will be completed in all cases and details of these actions will be documented.</p> <p>A query has been placed with the Lagan team to ask if Lagan can automatically populate the online order form based on login details.</p> <p>Staff involved in the processing of invoices using Lagan will be reminded of the need to chase up and record goods received information before invoices are sent for payment.</p>
E	Feeder Systems	High Assurance	<p>There are 13 feeder systems to Oracle Financials. 5 feeder systems interface with the General Ledger, 7 with Accounts Payable and one with Accounts Receivable. The audit tested all the feeder systems in the period September to October 2014 to ensure that the interfaces had been carried out in a timely manner. Additionally, three feeder systems were tested to ensure that the imported data had been reconciled to the relevant feeder system, and that</p>	March 2015	<p>Feeder system controls were found to be effective.</p>	No actions identified

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			the data was authorised, accurate, complete, reasonable and secure.			
F	New system interfaces	Substantial Assurance	<p>The audit reviewed the controls put in place since April 2015 for system interfaces. A sample of feeder systems was reviewed to ensure that:</p> <ul style="list-style-type: none"> • all the feeder systems produced control totals • Oracle Financials produced input totals • there was evidence that control totals between the interface and Oracle were reconciled before upload • the directorates were informed of any invalid records • interface holding/suspense accounts were monitored and cleared on a regular basis. 	January 2016	Overall processes were found to be effective with few invalid records created or records posted to suspense. However, since the introduction of the new version of Oracle significant numbers of records have been posted to suspense from the payroll system ResourceLink. This has resulted in additional work to clear them.	<p>One P2 Action was agreed</p> <p>Responsible Officer Head of Business Support & Head of ESS</p> <p>The number of errors from the payroll interface has now substantially reduced. The backlog of outstanding errors will be cleared by the end of the financial year. Progress will be monitored on a monthly basis.</p>
G	North Yorkshire Pensions Fund - 2014 scheme	Substantial Assurance	<p>The audit reviewed the systems and processes which have been put in place following the introduction of the 2014 scheme. The following areas were tested:</p> <ul style="list-style-type: none"> • for those members who had retired since April 2014 that the retirement benefit had 	August 2015	<p>Scheme employers have been provided with guidance and training on the requirements of the new scheme.</p> <p>In some cases transfers values received from other schemes had not been correctly allocated to the</p>	<p>Two P2 and two P3 actions were agreed</p> <p>Responsible Officer Technical Manager – North Yorkshire Pension Fund</p>

System/Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>been correctly calculated based upon the information provided by the scheme employer; and</p> <ul style="list-style-type: none"> • scheme employers had been informed of the requirements of the NYPF to be able to calculate a member's retirement benefit and to be able to prepare Annual Benefit Statements. 		<p>appropriate scheme within NYPF, and some SU5 Leaver Forms had not been independently authorised. Forms and letters issued by the fund could also be improved to highlight the need for scheme employers to check the accuracy of supplied data.</p>	<p>Forms and letters are to be reviewed. Detailed checking procedures are in place for transfer values and SU5 forms will be returned if they do not comply with agreed authorisation processes.</p>
H	North Yorkshire Pension Fund Investments	High Assurance	The audit reviewed the insurance cover, control reports and annual reports for all investment managers, and the external audit of investment fund control procedures.	May 2015	Effective controls were found to be in place.	No actions identified

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	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.