

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 DECEMBER 2016

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 2016 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 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 ad-hoc advice on various control issues;
 - Auditing and certifying a number of grant returns such as the Local Transport Plan, the Pothole Fund Grant and the Local Authority Bus Subsidy Grant. We review relevant supporting information to ensure expenditure has 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 and the highways maintenance contract.

- 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 The annual internal audit plan is based on an assessment of risk. 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 known 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 (i.e. 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

14 November 2016

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 2016

	System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
A	Integrated Passenger Transport (IPT)	Reasonable Assurance	<p>Transport provision on behalf of CYPS (for children and young people) and HAS (for adults and older people) is arranged by the Integrated Passenger Transport (IPT) service.</p> <p>IPT have contractual arrangements with a number of providers. The IPT Compliance Team is responsible for monitoring the delivery of those contracts. As part of their work IPT carry out inspections on the vehicles used by the providers and check that the drivers/escorts have DBS clearance.</p> <p>The audit reviewed the systems and processes being operated by IPT to manage the delivery of these contracts.</p>	March 2016	<p>The monitoring of operator performance was found to be resource intensive and did not allow for effective performance reporting.</p> <p>We found heavy reliance on the use of spreadsheets and these spreadsheets were not always working effectively (for example spreadsheets used to plan operator inspection visits and insurance).</p> <p>We also found improvements were required to the operator inspection visits. The officers completing the visits did not have access to all relevant information. The scope of the checks (including reviewing tax and driving licences) was also too limited. The processes used by the Compliance Team for the monitoring of DBS clearance were also limited in their effectiveness.</p> <p>For the future, we recommended that the IPT service should consider whether the current inspection visits to schools and operators are the best way to obtain assurance that the key parts of IPT contracts are being delivered in line with expectations.</p>	<p>Two P2 and thirteen P3 actions were agreed.</p> <p>These actions have been considered by the new Assistant Director (Transport, Waste and Countryside) following appointment in April 2016. It is accepted there is a need to review the approach to contract management of transport provision.</p> <p>Changes to the structures and ways of working of the department are ongoing with a revised structure currently subject to staff consultation. Once implemented the new structure will increase contract management capacity within the service to help deliver revised ways of working.</p> <p>A follow up audit recently started in November 2016.</p>

System/Area		Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
B	Bedale, Aiskew and Leeming Bar (BALB) by-pass	High Assurance	<p>The audit was the fourth and last 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"> Contract management arrangements were robust Performance management as agreed under the contract has been followed. Arrangements are in place to manage any future potential compensation allocations Findings from previous audits have been fully addressed. 	April 2016	Audit work found that the arrangements in place for each of the areas were working effectively. No issues were identified.	No actions were reported that require further action.
C	Local Enterprise Partnership	Substantial Assurance	<p>North Yorkshire County Council is the Accountable Body for the LEP partnership. Our audit built on our review from the previous year and examined whether:</p> <ul style="list-style-type: none"> Management actions from our last report have been addressed. Suitable Governance arrangements were in place to manage any NYCC risks as the Accountable Body 	May 2016	<p>We found all the agreed actions from the 2015 audit review had been completed satisfactorily.</p> <p>The Local Assurance Framework was agreed by the LEP Board in May 2015. We noted a small number of updates were required. There was also no review programme to ensure this framework is kept up to date. LEP management were to perform a review of the framework in the near future.</p> <p>Monitoring arrangements for the Growing Places fund were good.</p>	<p>Four P3 actions were agreed.</p> <p>A review has been completed and updated Local Assurance Framework produced.</p> <p>The LEP is in the process of carrying out a restructure of the team as a whole. Matters such as segregating of duties are being considered as part of that review.</p>

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		<ul style="list-style-type: none"> • Suitable monitoring arrangements were in place for the Growing Places fund awards • Funding secured from EU and Government is correctly accounted for, with terms and conditions that apply to that funding being complied with. • The LEP/County Council has established arrangements in place to ensure the expected outcomes of schemes are being/can be achieved 		<p>Members of the LEP team (who liaise with the applicants before and after schemes are assessed) should avoid also carrying out scheme appraisals (to assess the success of the scheme) as they might have a perceived conflict of interest.</p> <p>We also noted some areas where 'lessons have been learnt' by the LEP. For example, contract management for some schemes could be improved by having a robust business case and/or having a key person of appropriate seniority within partners to take overall control of the scheme.</p>		
D	Sandsend Coastal Protection Scheme Contract Review	High Assurance	The audit reviewed the scheme and assessed the extent to which appropriate management arrangements (covering risk, financial, performance and contract management) were in place.	May 2016	<p>There is a directorate risk register that includes a section on capital projects. We found relevant Sandsend project risks had been identified. Regular meetings of the project team were being held. These meetings included both verbal updates but also a monthly update document which outlined the current position of the works and any risks/issues.</p> <p>There was a clear understanding of the costs for the actual development part of the scheme.</p> <p>A procedure for compensation events (CE) was in place and all CE's were</p>	<p>One P3 action was agreed.</p> <p>It was agreed for future schemes the authorisation levels will be set before the start of the project. The finding was also brought to the wider attention of the BES Management Team for further scheme consideration.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
					<p>finalised within the set deadlines. However, it was noted that no formal authorisation levels for compensation events had been established until after the project had started and after the first event was authorised. For future schemes it would be beneficial to have appropriate authorisation levels set before the project commences.</p>	
E	Highways Maintenance Contract	Substantial Assurance	<p>The Highways Maintenance Contract (HMC) covers the provision of all aspects of the highways service.</p> <p>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>Internal Audits in 2014 and 2015 reviewed a number of strategic and operational aspects of the HMC contract. Both audits had concluded as 'reasonable assurance'. In this audit we sought to follow up the progress made in addressing the issues identified in our previous work.</p>	July 2016	<p>This audit found good progress has been made. Contract Performance Indicators have been significantly streamlined since April 2015. This work has enabled NYCC and Ringway to agree accurately the contract performance on a monthly basis.</p> <p>The time taken for agreement of 'pain and gain' figures for each scheme included within the contract has improved. A new system for when highway maintenance schemes are prepared for start on site was beginning to be used. Improvements have also been made between Symology and the Ringway Operations Hub which are helping to ensure orders are in line with contract requirements.</p> <p>The County Council has begun a process for managing the amount of work awarded to Ringway under the</p>	<p>One P2 action was agreed.</p> <p>Management are introducing frameworks to ensure work awarded is subject to appropriate controls and to help maximise value for money.</p>

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					contract so as not to exceed HMC total contractual values.	
F	Symology	Substantial Assurance	<p>Symology is a computer system that helps to manage the Council's infrastructure assets, including highways, land and property, bridges and structures, street lighting, and distribution networks.</p> <p>The system allows BES to maintain records of the condition of the highway, arrange and record surveys, order repairs, pay for completed work, record the work of utility companies on the network and update records held for each of these categories.</p> <p>We reviewed the key procedures and controls within the system.</p>	July 2016	<p>The majority of areas we reviewed were operating well. Suitable and accurate records were being maintained to support any activities undertaken on the highway.</p> <p>Appropriate controls were seen to be in place and most were working as designed. We highlighted two areas for improvement.</p> <p>Staff at each area office should be checking street work notices received from utilities and updating Symology. This check is to ensure that works are suitably planned and controlled, including appropriate traffic management and road closures. We found there was a significant backlog in completing this work.</p> <p>The works ordering system requires authorisation by the Area Maintenance Manager when orders exceed £1,500. We saw instances where orders were initially below this value but had additional work added to them. These orders were not being subject to authorisation.</p>	<p>Two P2 actions were agreed.</p> <p>A new network co-ordinator has been recruited and is to be responsible for assessing all planned works and minimising potential conflicts.</p> <p>New controls will be introduced into Symology in respect of authorisation.</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	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.