

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

2 MARCH 2017

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 2017 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 2017

- 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

13 February 2017

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 2017

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken	
A	Main Accounting	Substantial Assurance	The audit reviewed the controls in place to ensure: <ul style="list-style-type: none"> • Access to the Oracle system was appropriately restricted • Journals were authorised before being uploaded onto the system • Bank reconciliations were undertaken • Checks were carried out to ensure budgets had been accurately uploaded • Budgets were being effectively monitored 	February 2016	<p>The controls were found to be effective.</p> <p>The County Fund was reconciled on a daily basis by the Finance Officer but there was no evidence of secondary review.</p>	<p>One P2 and two P3 actions was agreed</p> <p>Responsible Officer Assistant Director Strategic Resources (Lead Business Partner to CDSR)</p> <p>Integrated Finance will implement more robust measures to review and approve bank reconciliations.</p> <p>The lack of independent checks has also been addressed and bolstered by Budget Managers taking responsibility for reviewing their allocated cost centres.</p>
B	Budgetary preparation and management	Substantial Assurance	<p>The Authority reviewed the budgeting procedures in line with the 2020 programme. The audit reviewed the processes in place to ensure that:</p> <ul style="list-style-type: none"> • The budgeting process was documented and available to staff 	May 2016	<p>The design and implementation of the revised budget setting process was a significant project. At the time of the audit the process was still undergoing change.</p> <p>The new budget preparation and management procedures are well documented. Appropriate guidance</p>	<p>One P2 and one P3 action was agreed</p> <p>Responsible Officer Corporate Director – Strategic Resources</p> <p>The current arrangements relating to Streetworks will be reviewed with recommended</p>

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		<ul style="list-style-type: none"> • Policies, procedures and guidance was being complied with • Budget procedures were robust and working effectively • Budgets were being monitored and regularly reported on by the relevant budget holders • Budget monitoring data was up to date and accurate. 		<p>was also being provided to budget managers.</p> <p>However, budget managers were only able to see budgetary information relating to the budgets they were responsible for. Not all cost centres had a responsible budget manager.</p> <p>A forecasting issue was identified in respect to the Fixed Penalty Notices issued by the Streetworks team, which were not being reconciled to actual payments made.</p>	<p>improvements. The issue has also been included in a wider review of Income and Debt Management commissioned by SRMT.</p> <p>All Lead Finance Business Partners have been tasked with identifying a named cost centre budget manager.</p> <p>This will be reviewed further as part of the 2016/17 audit</p>
C	Main Accounting	Substantial Assurance	June 2016	<p>The audit found that bank reconciliations were being carried out frequently, responsibilities and processes for setting up codes, cost centres and journal entries are limited accordingly, and system users had been migrated over with the correct access levels.</p> <p>As noted in A above, there was no evidence that bank reconciliations for each account were being reviewed and authorised by a senior accountant.</p> <p>Journal authorisers were not being recorded.</p>	<p>One P2 and Two P3 actions were agreed</p> <p>Responsible Officer Systems Manager Principal Accountant</p> <p>Integrated Finance will implement robust measures to review and approve bank reconciliations as part of the 2016/17 work stream review process.</p> <p>All journals are now auditable and traceable in terms of who has inputted and posted a journal.</p>

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		<ul style="list-style-type: none"> the implementation of Oracle Version 12 Data migration had been completed and the integrity and security of the main accounting system is maintained 		Inactive users (over 56 days) were not being removed.	The alert module within the Oracle system has now been correctly configured and the outdated logon alert (56 days without logon) has now been activated to work as it was with v11i.
D	Creditors	Reasonable Assurance	<p>The audit reviewed the controls in place to ensure:</p> <ul style="list-style-type: none"> Duplicate payments were prevented Invoices were processed in accordance with relevant policies and procedures The goods ordered via the LAGAN/online form were placed in line with procedures stated in the Finance Manual Changes to creditor master file records were appropriately authorised 	<p>August 2016</p> <p>In general the process in place to prevent duplicate payments operates effectively although there is an issue with emergency payments that avoid the normal duplicate checks.</p> <p>The use of the LAGAN system continues to cause problems as payments are made without evidence of good receipt, and the system does not reliably identify the source of the request.</p> <p>Checking of creditor bank account changes has improved, although there are still some inconsistencies.</p>	<p>Two P2 and two P3 actions were agreed</p> <p>Responsible Officer Head of Business Support</p> <p>Communication to be cascaded to all staff that emergency payments will not be accepted and invoices should be passed for payment in line with the SLA set out by exchequer services.</p> <p>Some of the issues with LAGAN will only be solved when P2P is fully implemented and LAGAN is no longer used for requesting orders. A risk based approach will be taken until then to enforce good receipting for higher value orders</p> <p>Further training will be given to the team to ensure that names</p>

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						and telephone numbers are recorded on AP10 forms.
E	Business Continuity & Disaster Recovery	Reasonable Assurance	A review was carried out to ensure that there is a full set of Business Continuity plans for the Council and all Directorates, and that corporate priorities have been identified	September 2016	<p>Significant progress has been made in last 12-18 months in developing a more effective, complete and resilient set of Business Continuity plans. There is now an overarching Corporate Plan which outlines corporate priorities in the event of an emergency. This sits above the individual service area plans.</p> <p>A Business Impact Analysis (BIA) and Incident Management Plan (IMP) have yet to be completed for one service area, and other service areas BIAs and IMPs are incomplete or out of date.</p> <p>Access to the available plans is mainly limited at a high level and knowledge and understanding of plans is not yet adequately embedded.</p>	<p>Three P3 actions were agreed</p> <p>Responsible Officer Assistant Director (Policy and Partnerships)</p> <p>A quarterly check will be made at the Corporate Risk Management Group (CRMG) that current BIA and IMP information has been completed for all service areas.</p> <p>The Emergency Planning Unit (EPU) will liaise with NYCC Workforce Development to investigate methods of raising business continuity (BC) awareness for all staff. Each Directorate BC champion will be asked to report to the CRMG about the BC training given to their staff. EPU will arrange for a BC specific exercise for all Directorates in the next 12 months.</p> <p>The Corporate Business Continuity Plan will be used to inform senior management of</p>

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						<p>their corporate priorities during any specific incident and identify which critical services will be prioritised during a BC incident. EPU will run an exercise for senior management and Directorate BC champions in identifying BC priorities during an incident.</p> <p>Progress will be further reviewed as part of the 2016/17 Business Continuity audit.</p>
F	Local Welfare Assistance Scheme	Substantial Assurance	<p>In 2013, Community Care Grants and Crisis Loans previously provided by central government were replaced with the Local Welfare Assistance Scheme (LWAS). The responsibilities for the delivery of the new scheme were transferred to upper tier and unitary local authorities such as the County Council.</p> <p>From October 2015, the Council has had a contract with Connect Assist to deliver the service. We reviewed the current arrangements to ensure:</p>	September 2016	<p>Overall we found the scheme is achieving the main objectives by delivering awards to vulnerable people across the county. In addition, following recent fraudulent applications the council has taken steps to improve controls and reduce any possible recurrence.</p> <p>We noted that personal data was sent between NYCC and Connect Assist using a less secure method than that required in the contract with Connect Assist.</p> <p>We noted a small number of clients (six) who had received more than the maximum allocation of awards. There was also one instance where</p>	<p>One P2 and three P3 actions were agreed</p> <p>Responsible Officer Assistant Director (Policy and Partnerships)</p> <p>Discussions were to be held with Connect Assist in respect of data transmission with a view to improving security.</p> <p>Further work will be performed to determine if there were valid reasons for the specific awards identified in the audit. If not then these cases will be discussed with Connect Assist.</p>

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			<ul style="list-style-type: none"> Procedures were in place to prevent fraudulent applications from being accepted The LWAS budget was monitored and necessary actions are taken to address any over spends The requirements set out in the contract between Connect Assist and NYCC were being fulfilled <p>We also reviewed the applicants' data using data analysis software to identify possible trends in fraudulent applications.</p>		the applicant did not provide the supporting documentation but Connect Assist still processed the application and awarded the applicant.	
G	Members Allowances	No opinion	<p>Member's complete travel and expenses claims through MyView. Council policy expects these to be completed on a monthly basis but at least every three months. The claims are not subject to any further authorisation.</p> <p>Following the 2015/16 audit, the Corporate Director - Strategic Resources recognised the need for internal checking procedures to be improved. Some additional checks were therefore agreed.</p>	November 2016	<p>We noted there were no clear written instructions setting out the checks to be carried out by officers. Some potential checks were also not being undertaken. For example there were no checks completed on subsistence claims or retention of receipts.</p> <p>There were also some weaknesses with the mileage report being used as part of the checking procedures.</p>	<p>Three actions were agreed</p> <p>Responsible Officer Corporate Director – Strategic Resources</p> <p>The specific checks to be undertaken would be agreed and documented.</p> <p>ESS to review the report produced on member's expenses claims to ensure the data is sufficiently accurate to</p>

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			Our work in 2016/17 assessed the extent to which appropriate checks on member's expenses were now being completed. The audit did not include any testing or review of individual member's claims.			be used for checking purposes.
H	Pensions 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 2016	No significant control issues were identified	<p>One P3 action was agreed</p> <p>Responsible Officer Senior Accountant – Pensions</p> <p>Fund Managers will be contacted to facilitate future information gathering.</p>
I	Pension Fund Income	No opinion given	Following the introduction of the Career Average Revalued Earnings (CARE) scheme, scheme employers are required to submit two year end files to the pension fund to provide details under the old and new schemes. Following issues with submissions, the audit reviewed the processes used by a sample of employers to identify common issues and areas of best practice to share with employers to improve future submissions	October 2016	<p>Some employers have experienced difficulties due to problems with their payroll system, or where system information is downloaded by someone who is not a payroll specialist.</p> <p>Employers with more reliable returns have generally produced additional reports internally and have carried out a number of checks prior to submission of their data. Others have submitted returns as downloaded from the payroll system without any checks</p>	Information obtained by the audit is to be used for future training for employers, with the possibility of introducing a checklist to ensure data is in the correct format and the level of pre-submission checking is identified.

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					Some employers did not submit data in the correct format in terms of column order and to the correct decimal place as requested.	

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.