

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

30 NOVEMBER 2017

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 2017 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.
- 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 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 ad-hoc advice on various control issues; for example on proposed changes to Concessionary Fares processes
 - Auditing and certifying a number of grant returns such as the Local Transport Plan, the Local Growth Fund, the LEP Growth Hub and the Local Authority Bus Subsidy Grant. We review relevant supporting information to ensure expenditure has been incurred in accordance with the 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

- Considering matters raised via 'whistleblowing' communications
- 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 be 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

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.

Services directorate is that it provides **substantial assurance**. There are no 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

15 November 2017

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 2017

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken	
A	Allerton Waste Recovery Park	No opinion	We reviewed the progress made by the Council to address the key actions raised in our March 2016 audit report. We also considered whether the risks of the project are being managed and effective risk reduction actions were being taken.	May 2017	Good progress had been made at this important stage of the project lifecycle. Additional specialist project management and finance resources have been put in place to ensure risks are managed. The construction and commissioning chapters of the contract manual have been completed. The Management Information System (MIS) needs to be completed before the plant is commissioned and operations start in 2018. At the time of the audit, a working group had been established involving all relevant parties. Timescales for the completion of the MIS had been agreed and the work was on track to be completed in 2017. The latest risk registers highlighted all relevant risks and were consistent with our knowledge of the project. The registers contained a number of appropriate risk reduction actions.	No actions were reported that require further action.
B	Integrated Passenger Transport (IPT)	No opinion	The purpose of this audit was to: <ul style="list-style-type: none"> follow up the findings from the 2015/16 IPT audit and to review the extent to which the matters identified in the 	May 2017	Progress has been made to develop improved ways of working. This has included changing working practices to help increase capacity and allow managers more time to develop further strategic improvements. Good progress has also been made to	No new actions were reported that require further action.

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
		<p>original report had been addressed</p> <ul style="list-style-type: none"> gain an understanding of the current issues facing the IPT team 		<p>address the issues identified in the previous audit. Ten of the fifteen findings have been completed. We found that, for example:</p> <ul style="list-style-type: none"> There is now a process for recording and following up non-compliance with DBS badge requirements Tablet computers and improved ICT connectivity will ensure inspection visits can be undertaken more efficiently Defaults are being considered proportionately. Financial penalties are considered but a balance is made between managing relations with operators and issuing defaults. <p>For those five 'in-progress' findings the common theme is the need to use technology to help automate and support future ways of working. It will take time to fully introduce automated systems and processes for insurance, compliance risk assessments and performance management. Plans to replace the PARIS IPT database are currently at an early stage of development.</p>	
C	Highways Maintenance Contract	High Assurance	The Highways Maintenance Contract (HMC) covers the provision of all aspects of the highways service. This audit focused on the following areas of the HMC to assess whether:	May 2017 The recently developed BES Project Board is examining relevant strategic issues as well as the contract for engineering consultancy services. The Board has an approved governance structure and risk management system established. All relevant contract options are being considered in accordance	No actions were reported that require further action.

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken	
		<ul style="list-style-type: none"> strategic plans are in place to manage the value of work given to RIS under the current contract, and for deciding future delivery model options. Effective contract management processes are in place for work awarded by tender to other contractors the Fleet Management service is meeting agreed outputs and Primary Contract Performance Indicators. 		<p>with the Highway Maintenance Efficiency Programme.</p> <p>Officers were also visiting other similar highway authorities to help understand how they are providing their services and their future plans. It is expected the Board will identify a preferred option for the future provision of highways services well in advance of the required procurement timescales.</p> <p>We found the work tendered to other contractors was delivering savings and also was being appropriately managed. A progress report covering work awarded outside of the HMC was planned to be presented to the next Board.</p> <p>We tested the two primary performance indicators for the Fleet Management service. No issues were found. The service was meeting agreed outputs under the contract. New indicators are also currently being considered by management to help monitor service delivery.</p>		
D	Concessionary Fares	Substantial Assurance	North Yorkshire County Council reimburses bus operators with the monthly value of concessionary journeys. NYCC is also part of a joint concessionary fares scheme with City of York Council (CYC). NYCC is responsible for processing and administering	November 2017	<p>Appropriate controls are in place for the issuing of bus passes. Relevant supporting information was being requested to verify customer eligibility.</p> <p>The Council has introduced the HOPS system which is used by some operators to capture user data from bus services while on</p>	<p>Two P2 actions and one P3 action was agreed.</p> <p>Reconciliations in respect of the HOPS to bus operator activity data and the payment information contained in the monitoring spreadsheet to</p>

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
		<p>reimbursements on behalf of CYC.</p> <p>We reviewed the Concessionary Fare arrangements to ensure:</p> <ul style="list-style-type: none"> • bus passes are issued and renewed in line with Council policy • Reimbursements to bus operators are accurate, timely and made in line with guidelines • An appropriate contract is in place with CYC, and this is managed effectively for the joint concessionary fares scheme 		<p>route. Once a ticket or fare is issued the transaction is logged in the HOPS system. However, information to support payments to the bus operators is provided separately. No reconciliation checks are currently undertaken between the two data sets.</p> <p>The process of reimbursing operators currently involves a significant amount of manual data processing. This work includes the use of spreadsheets and data input to the PARIS IPT database (which interfaces to the Oracle finance system). Currently there are no reconciliation checks performed between the activity data and the Oracle finance system to ensure payments are accurate and complete.</p> <p>An up to date contract for the work undertaken on behalf of CYC has been written but has not yet been signed. Currently the contract has no clear allocation of responsibilities and some specific duties are not defined. Some areas such as accuracy checks of operator submissions for York journeys are not currently being carried out.</p>	<p>the actual payments made are to be introduced by the end of March 2018.</p> <p>NYCC officers are meeting with CYC in 2018 and will discuss the items raised in the audit.</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.