NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

10 OCTOBER 2018

INTERNAL AUDIT REPORT ON INFORMATION TECHNOLOGY, CORPORATE THEMES AND CONTRACTS

Report of the Head of Internal Audit

1.0 **PURPOSE OF THE REPORT**

1.1 To inform Members of the **internal audit work** completed during the year to 31 August 2018 in respect of information technology (IT), corporate themes and contracts and to give an opinion on the systems of internal control in respect of these areas.

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 IT, corporate themes and contracts, the Committee receives assurance through the work of internal audit (provided by Veritau) as well as receiving copies of relevant corporate and directorate risk registers.

2.2 This report considers the work carried out by Veritau during the period to 31 August 2018. It should be noted the internal audit work referred to in this report tends to be cross cutting in nature and therefore there are no corresponding directorate risk registers to consider.

2.3 The Corporate Risk Register (CRR) is fully reviewed every year and updated by the Chief Executive and Management Board in September / October. A six monthly review is then carried out in April / May. The latest updated Corporate Risk Register was presented to the Committee in June 2018. There have been no significant changes in the County Council's risk profile since that date.

3.0 **WORK CARRIED OUT DURING THE YEAR TO 31 AUGUST 2018**

3.1 Summaries of the internal audit work undertaken and the reports issued in the period are attached as follows:

IT audit assurance and related work	**Appendix 1**
Corporate assurance	**Appendix 2**
Contracts and procurement	**Appendix 3**

3.2 Internal Audit has also been involved in a number of related areas, including:

- providing advice on corporate governance arrangements and IT related controls;

- providing advice and support to assist various project groups;

- providing advice and guidance to directorates and schools on ad hoc contract queries and on matters of compliance with the County Council's Contract and LMS Procedure Rules;

- attending meetings of the Corporate Information Governance Group (CIGG);

- contributing to the development and roll-out of the procurement strategic action plan, including participation in a number of delivery areas;

- carrying out a number of investigations into data security incidents and corporate or contract related matters that have either been communicated via the whistleblowers' hotline or have arisen from issues and concerns reported to Veritau by management.

3.3   This is the first year that IT audit coverage has been provided directly by Veritau. In addition to the specific IT audits detailed in Appendix 1, there has been an increased coverage of IT related controls and activities as part of general audits where key IT systems are in operation.

3.4   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 4**.

3.5   It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau formally follow up all agreed actions on a quarterly 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.**

3.6   The programme of audit work is risk based. Areas that are assessed as well controlled or low risk tend to be 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 board[2]. The report should include:

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[1] For the County Council this is the Head of Internal Audit.
[2] For the County Council this is the Audit Committee.

(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 across the three functional areas is that it provides **Substantial Assurance**. There are no qualifications to this opinion. No reliance has been placed on the work of other assurance bodies in reaching this opinion.

5.0   **RECOMMENDATION**

5.1   That Members consider the information provided in this report and determine whether they are satisfied that the overall control environment operating in respect of information technology, corporate and contract arrangements is both adequate and effective.

Max Thomas
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

26 September 2018

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared and presented by Max Thomas, Head of Internal Audit (Veritau).

INFORMATION TECHNOLOGY - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2018

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Cyber Security	Substantial Assurance	We reviewed the ICT procedures and controls to determine whether they were compliant with the following ISO 27001 clauses: • Information Security Policies (A5) • Physical Security (A11) • Operations Security (A12) • Information Security Incident Management (A16) Comparisons were also drawn between the Council's cyber arrangements and the requirements of the National Cyber Security Centre's 10 Steps to Cyber Security.	June 2018	The Council has a comprehensive Information Security Management System (ISMS) with a suite of policies that underpin security practices. On the whole, the suite of policies and procedure notes are comprehensive and relevant. Several policies were found to have passed their review date. There was also no formal Back Up Policy in place. Good back up practices were in place but these should be outlined in a formal policy. The Technical Incident Management Procedure does not include information on how to identify a potential security incident (DDoS/ransomware/phishing etc). There are strict change management procedures in place which appear to be working effectively. The Council is also proactively seeking ways to educate users about cyber incidents.	**One P3 action was agreed.** **Responsible Officer: Head of Technology Solutions** All policies in the ISMS have been reviewed and updated. A backup policy will be created which will detail objectives and requirements. The Technical Incident Management Procedure will be reviewed and altered accordingly.
B	Asset Management	Reasonable Assurance	The council has a large number of ICT assets. We reviewed the procedures and controls in place to determine	August 2018	Comprehensive policies and procedures are in place for the management of assets. The policies are in line with the control objectives	**One P2 action and one P3 action agreed.** **Responsible Officers: Service**

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		whether: • Asset management processes are in line with relevant requirements of ISO 27001 & 20000. • The asset register shows a true representation of the location of assets.		set out within ISO 27001 & 20000. In general, the council is following these policies and procedures. However, we did find a number of policies were out of date. The council has utilised asset management software to record details of its IT assets, including the name of the user. However, there are a small number of assets which are not allocated or in use. There is no formal procedure for recovering these assets.	**Centre Manager and Head of Technology Services.** **Service Centre Manager:** We will address the issue of unused devices including improved reporting. We will also introduce a monthly dip sample of 20 "live" mobile assets. **Head of Technology Services:** We will assess the list of legacy equipment and make a recommendation to CIGG to either write-off or commit more resources to further recover the assets.

CORPORATE THEMES - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2018

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Transparency Code	Limited Assurance	In 2015 the Department for Communities and Local Government published the 'Local Government Transparency Code' to allow greater and easier access to data. The purpose of this audit was to assess the extent to which: • The data requirements specified by the Transparency Code were being complied with; • Data was published on a timely basis as per the timeframes specified in the Transparency Code. The scope of the audit did not include any review of the accuracy or completeness of the data being published.	November 2017	The Council was not complying with the publication and statutory requirements of the Transparency Code. All relevant data was not being published. Some of the published data was not published according to the required timescales. Only 3 of the 12 relevant sections of the Code had related information published correctly and per the required timescales. The remaining data sets were either incomplete, difficult to locate, out of date or not published at all. There was a lack of clarity on individual responsibilities. No retrospective checks were being made to ensure the information had been correctly published on the Data North Yorkshire website. There was a lack of management oversight and guidance for the whole process. A follow audit on Transparency is in progress at the time of this report.	**Three P2 actions agreed.** **Responsible Officers: Data Governance Manager and Data and Intelligence Manager** The Data Governance Team will develop and implement an effective and efficient process to ensure accurate information is published within the required timescales. The Data and Intelligence Team will develop and roll out relevant and regular training for information asset owners and operational employees
B	IR35	Substantial	From April 2017, local	January	The process to assess cases referred	**One P2 action and one P3 action**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		Assurance	authorities and other public sector bodies are responsible for collecting Income tax and National Insurance for contractors and interim staff, who work through limited companies (IR35). The Resourcing Solutions Team within Human Resources is responsible for assessing and determining whether the IR35 legislation applies. We reviewed the procedures and controls to ensure that: • Sufficient checks have taken place when determining whether IR35 applies or not • Relevant team(s) have received appropriate training in order to carry out their duties correctly; • Where IR35 support and guidance has been provided externally, this has been sufficient.	2018	to the Resourcing Solutions Team was found to be operating effectively. The Resourcing Solutions Team is reliant on cases potentially within the scope of IR35 to be referred from other departments and service areas. Awareness and details of the changes has been raised across the Council by the Assistant Chief Executive (Business Support), HR and OD. However, a check on the NYCC Intranet failed to find any easily accessible guidance on IR35 for employees. The Resourcing Solutions Team has received adequate and suitable training in order to fulfil their responsibilities and appropriate support and advice was provided externally. However, there was no centrally held record of courses attended by members of staff. Currently there is no process in place to check expenditure for potential IR35 cases. There is therefore a risk some cases have not been referred to the Resourcing Solutions Team to determine.	**agreed.** **Responsible Officer: Principal Advisor Resourcing Solutions.** Resourcing Solutions Team to undertake a periodic check of a financial subjective related report on a quarterly basis for the next 12 months (from January 2018). This will be reviewed in 12 months' time and if no evidence is found of non compliance with IR35, the check will be completed less frequently e.g. every 6-12 months. The Resourcing Solutions Team members responsible for IR35 will log all future training completed in relation to IR35 legislation on the Learning Zone. This will appear on their Learning Zone records within 6 weeks of being submitted. This will include the name and nature of the training and the date that it was attended.
C	Capital Programme Management	Substantial Assurance	Business and Environmental Services (BES) is responsible for the largest element of	January 2018	There is sufficient and adequate monitoring of the capital programmes for BES and CYPS.	**One P2 action agreed.** **Responsible Officer: Network**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			expenditure within the NYCC Capital projects budget. The majority of the expenditure relates to the Highways Capital Programme. We reviewed the procedures and controls to ensure that: • The capital programme is monitored consistently and effectively. • Changes to capital projects are made in line with the Council's policy. The audit focussed predominantly on capital project management within BES and CYPS.		The CYPS capital programme reflects the greater flexibility permitted by some of the grants used to fund projects. However, for BES some budget monitoring of project expenditure was found to be inaccurate. Some significant scheme variations forms had not been submitted to the Capital Programme Coordinator in a timely manner. In other cases the scheme variation forms contained insufficient information.	**Strategy Manager.** Team performance is now the subject of regular scrutiny through the 'Highways North Yorkshire' governance structure. The inclusion of significant scheme variation form compliance into this framework has resulted in an improvement. It is acknowledged that any continued individual instances of failure to comply could be considered a performance issue and dealt with accordingly.
D	Attendance Management	Reasonable Assurance	'Sickness' is one of the key performance indicators reported on a quarterly basis to the Executive. We reviewed the procedures and controls to ensure: • Absence is correctly reported by employees and recorded by managers consistently and in line with the Attendance Management policy.	February 2018	We reviewed the Attendance Management policy and found it to be complete and up to date. Training has been provided to all managers to support compliance with the policy. A 'workflow' is also in place for managers to follow when selecting the correct course of action to take for an employee's absence. Further manual controls are also in place including regular reminder emails. Our testing found that relevant	**Two P2 actions and one P3 actions were agreed** **Responsible Officer: Assistant Chief Executive (Business Support)** Updated training has been introduced in late 2017 on the attendance management procedure. This is mandatory for all managers to complete. Consideration will be given to see if there is the capability to mandate

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			• Managers monitor the absences and take appropriate and effective action where necessary. • The data used to calculate the sickness Key Performance Indicator is complete and accurate.		documentation relating to employee absence is not recorded on Wisdom. Managers were also not documenting Return to Work interviews (as required by the Attendance management policy). There was also insufficient evidence of the management of recurring absences.	the workflow and include auto-fill forms from the workflow into Wisdom. Auto-fill forms would ensure that completed Return to Work Interviews and Self-Certificates were stored in the correct place on Wisdom.
E	Revenue Budget Management	Substantial Assurance	We reviewed procedures and controls to ensure: • Budgets were set in an consistent manner and recorded correctly • Budget Managers had the necessary tools to forecast and manage their budgets effectively • Effective budget monitoring was assisting managers to operate within their set budget	May 2018	A number of issues have been identified around the "user friendliness" of the system. These issues are causing some frustration in the use of e-forecasting. Officers are in some cases reverting to other processes, for example spreadsheets to provide assurance and feel confident in undertaking their budget responsibilities. There is also some confusion about the respective responsibilities of budget managers and Finance staff.	**Two P3 actions were agreed.** **Responsible Officers: Head of Strategic Finance & Head of Internal Clients.** The Issue Log will be reviewed and proposed actions will be reported to Finance Leadership Team (FLT). Visits will be arranged to other organisations where there is evidence the system is being used more effectively. A briefing paper on functionality and the applicability of Smartview will be taken to FLT. There will also be further promotion of the online training courses for budget managers. A 'classroom' training resource has also now been developed. Support to forecasting is, or will be, diarised, for example monthly sessions with HAS managers within

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						the forecasting period.
F	Transition from Children to Adults	Reasonable Assurance	Between the ages of 18 and 25, support for young people may transfer from CYPS to HAS. We reviewed the procedures and controls for the transition of children to adults to ensure: • The arrangements were robust and compliant with legislation • The directorates efficiently managed the quality and flow of data and information leading to quality outcomes	August 2018	The Council is undertaking a joint CYPS and HAS review of the transition process as part of the 2020 programme. The review is in the early stages of development. The audit highlighted that improvements could be made to the practical application of the 'Preparing for Adulthood' model. Issues were raised with the quality of Education, Health and Care Plans (EHCPs) and the quality and flow of information between CYPS and HAS. Cases were not always being transferred to HAS in a timely manner. There is also a need for further support and targeted transitions training for staff in both CYPS and HAS.	**One P2 and four P3 actions were agreed** **Responsible Officers: Assistant Director Commissioning and Assistant Director Inclusion** A joint review of the current transitions model has been undertaken and a newly agreed model is currently under development with the support of the 2020 programme. Development of the new Transitions model which will involve members of staff in CYPS and HAS Adult jointly working on cases from the age of 16 years. AD Inclusion to discuss with Head of SEND to ensure the final copy of the EHCP and subsequent reviews are sent to the relevant HAS social worker. Quality issues are already being addressed as part of the work being undertaken by the Head of SEND.
G	Information Security compliance audits	Various compliance visits:	• ESS • Racecourse Lane • The Lodge	Various	Following each visit, a detailed report is sent to the Senior Information Risk Owner (SIRO), as well as to relevant	**Six P2 actions were agreed** **Responsible Officer:**

System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
	2 x High Assurance 1x Reasonable Assurance 2 x Limited Assurance 1 x No Assurance	• Hipswell House • Morton on Swale, SW Team • Legal		directorate managers. Data security practices and compliance with council policies was found to be poor in a number of instances.	**Corporate Director - Strategic Resources (and others)** Responses have been obtained from relevant directorate managers following each audit. Management have viewed the findings seriously and have taken immediate action where issues have been discovered. Follow up visits have been arranged where significant information risks have been identified.

CONTRACTS - FINAL AUDIT REPORTS ISSUED IN THE YEAR TO 31 AUGUST 2018

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Foundation Housing	No Opinion Given	In June 2017, concerns were raised about the Offenders Housing Related Support service being delivered by Foundation Housing. The annual contract cost is £486k. The purpose of the audit was to review the issues which had been raised. We also sought to review the extent to which contract performance was being effectively managed.	September 2017	We found no significant weaknesses with the service. Quarterly contract management meetings have taken place in accordance with the contract. No concerns were raised at those meetings about staffing levels or the service provided by Foundation Housing. Quarterly performance monitoring information has also been submitted in line with the contract. Performance information was currently based on quantitative measures only. However, there is scope to include more qualitative measures to help evaluate the delivery of outcomes.	Quality Assessment Framework (QAF) visits were carried out at the Foundation Housing offices in Harrogate and Scarborough in October 2017. An action plan is to be developed from the evidence gathered from the QAF visits. Targets and timescales will be agreed with Foundation Housing by the end of the calendar year.
B	Revenue Contracts – Dalewood Follow Up	No Opinion Given	In 2016, an audit visit to Dalewood Trust was carried out with the Quality and Contracting team. A number of significant weaknesses were identified. This follow up audit was to provide assurance that the actions agreed in the last audit report had been completed and there was a strategy in place for the future delivery of the Day Service	December 2017	A number of significant changes have been made which has improved the data and effectiveness of contract management A revised attendance spreadsheet has been introduced which improves the quality of data, ensures the correct payments are made and enables issues with service use to be more easily identified.	-

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			Contract.		No new findings were raised as a result of this follow up review. All the agreed actions from the previous audit have been implemented or will be accommodated as part of the future strategy.	
C	Framework Contract Complaint	No Opinion Given	In 2017, NYCC created a supplier framework for schools and academies to purchase Management Information Systems and Financial Accounting Systems. After being accepted onto the framework and after the stand still period one supplier raised a complaint regarding the framework's adherence to the 'Public Contracts Regulations 2015' legislation. The purpose of this audit was to provide assurance that: • The processes for developing and implementing the framework agreement were appropriate. • Any lessons to be learnt from this procurement exercise had been identified.	May 2018	The procurement process was completed to the necessary standard for this type of framework agreement. The framework had been appropriately investigated, assessed and approved. Due to the specific nature of the framework, conclusions drawn from this case may not be applicable in future procurement exercises. All procurement officers however need to be made aware of the key learning points of this case. A further review of existing frameworks should also be considered. Comprehensive notes should be made at any pre procurement events held with potential suppliers.	The recommendations from this review will be raised within the weekly Leadership Team meetings and cascaded to the procurement officers for future awareness.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
D	Organised Crime – Procurement Risks	Substantial Assurance	In December 2016, the Home office published a report which identified the procurement related risks to local authorities from organised criminals. The purpose of this audit was to review the Home office report and to assess the arrangements currently in place at the council.	August 2018	We found the council already has procedures in place to deter and identify fraud as recommended in the Home Office report. The council has recently embarked on a procurement strategy which aims to obtain the best value for the authorities spend, through the efficient use of resources and technology. However, procedures for disclosing potential conflicts of interest in procurement have not been revisited since the procurement function returned 'in-house' in 2017. The Home Office report also recommends two additional contract clauses.	**Two P3 actions were agreed.** **Responsible Officer: Head of Procurement.** We will review and update the declaration of interest process for procurements as part of the Policy and Process procurement strategy work stream. We will consider the recommended wording for our template procurement documents as part of the Policy and Process procurement strategy work stream.

AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit Opinions	
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.	
Our overall audit opinion is based on 5 grades of opinion, as set out below.	
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.