

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

20 DECEMBER 2018

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 2018 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 2018

- 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 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 programme of audit work is risk based. 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 (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

3 December 2018

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 2018

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken	
A	Highways Inspection Manual and Third Party Claims	Substantial Assurance	We reviewed the procedures and controls for managing third party claims and considered whether: <ul style="list-style-type: none"> The Highways Inspection Manual includes all aspects of the government code of practice for managing inspections and repairs Inspections, defects and repairs are completed accurately and within appropriate timescales Policies, procedures and best practice are amended as required where 3rd party claims are successful. 	September 2018	<p>The Highways Inspection Manual included all aspects of the government code of practice for managing inspections and repairs</p> <p>It was found that not all the Area Maintenance Managers (AMMs) had been using reports from the Council's electronic asset management system (Symology) to highlight when inspections had not taken place.</p> <p>Highways Area 4 was sending future inspection dates and numbers projections to Ringway to help better forecast the amount of repair work following the inspections. We suggested this approach should be considered by the other Highways areas.</p> <p>Some third party claims resulting from highway defects have been successful. Where this has occurred, NYCC has amended its policies, procedures and best practice. The updated information has then been disseminated to the appropriate levels of management and staff.</p> <p>Our review of a sample of claims found key controls and procedures were operating effectively.</p>	<p>Three P3 actions were agreed</p> <p>Responsible Officer: Head of Highways Operations</p> <p>AMMs were reminded that if they were encountering problems producing exception reports from Symology, then they should immediately contact the Symology Systems Administrator for assistance.</p> <p>Best practice from Area 4 was disseminated to all AMMs. Any future instances identified will be included in the meetings held with Area Managers.</p>

	System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
B	Street Lighting	Substantial Assurance	<p>As part of the 2020 Transformation programme the Council is replacing all 50,400 street lights with LED technology. This programme is due to take three years to complete.</p> <p>The purpose of this audit was to review the procedures and controls that ensure:</p> <ul style="list-style-type: none"> Risks to the successful completion of the project have been identified and are managed effectively. Progress of the project is regularly monitored and appropriately reported. 	November 2018	<p>Risks to the successful completion of the project have been identified. All were relevant to the project's objectives, assigned to an appropriate risk owner and scored in line with guidance. The risk register was regularly reviewed and updated. The complete risk register was reviewed by the Project Board as part of each meeting agenda.</p> <p>Resourcing requirements were being monitored via the risk register. Project task lists and milestone reports are in place to monitor progress. Each stage has been assigned a timescale and a completion measure. However, our review noted two tasks reported as 100% completed were still ongoing.</p> <p>The monitoring of the project's progress, benefits and budgets was expected to be facilitated via a reporting dashboard. This is now live. However, due to a number of data quality issues this dashboard was not fully functioning as intended.</p> <p>The project was subject to a health check in March 2018. The overall health check assessment gave the project substantial assurance with a number of recommended improvements suggested. At the time of our audit three of these recommended improvement actions were still outstanding.</p>	<p>One P2 and two P3 actions were agreed</p> <p>Responsible Officer: Project Manager</p> <p>All the following actions were planned to be completed by the end of 2018:</p> <ul style="list-style-type: none"> Continue to monitor and report on progress with development of dashboards to T&C and Project Board. Produce reports on resource usage for consideration by T&C and LED Project Board. Agree new milestones with Project Board for recruitment activity and continued development of the dashboards. Create a quality plan and change log and load to Sharepoint. Review Lessons Learned for rollout to date and produce a Lessons Learned report.

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.