NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

7 MARCH 2019

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 2019 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.

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 2019**

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;

- 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**. 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   **RECOMMENDATION**

4.1   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 2019

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 2018

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Capital Programme Management	Substantial Assurance	The purpose of this audit was to provide assurance to management that the capital programme is monitored consistently and appropriately across directorates, that variations are made correctly and remedial action is taken where necessary. The audit focussed predominantly on capital projects within BES and CYPS.	March 2018	There was consistent approval of the capital programmes for BES and CYPS. The monitoring of the CYPS capital programme was effective although it was less intensive than the BES programme. Forms are required to be completed for 'Significant Scheme Variations'. However, a number were not submitted to the Capital Programme Coordinator 28 days prior to work commencing on site as required. Some forms also had insufficient details recorded to explain the variation in scheme spend.	**One P2 action was agreed** **Responsible Officer** Network Strategy Manager Any continued individual instances of failure to comply will be followed up with the relevant officers.
B	Business Continuity and Disaster Recovery	Reasonable Assurance	The purpose of this audit was to review the completeness of Business Continuity Plans across all service areas and to review the debrief exercises after each Business Continuity incident, to ensure that any lessons learnt are acted upon.	December 2018	The audit found that progress has been made to put into place, and embed, a more robust Business Continuity framework. This is evident by the recently introduced service level debrief process. Business Continuity is also now a standing item on the agenda of the Corporate Risk Management Group (CRMG).	**Three P2 and one P3 action was agreed** **Responsible Officer** Head of Resilience and Emergencies Senior Emergency Planning Officer Business Continuity Champions will actively monitor services to ensure that

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					Recent Business Continuity plans have not been uploaded onto the SharePoint site, as per guidance, with a significant number over three years old. The Corporate Business Continuity Plan included a small number of out of date references. The Business Continuity Policy and Strategy Guidance had also not been refreshed since September 2015. There was a lack of detail on the actual processes in place relating to recently introduced processes such as the debrief report process after an incident, or the training exercises form completion report. A template and relevant guidance has been provided to each directorate on the requirements for recording training undertaken. However, completed templates were not available for a number of service areas.	Business Impact Assessments (BIA's) and Incident Management Plans (IMP's) are kept up to date and are fit for purpose. The North Yorkshire County Council Corporate Business Continuity Strategy, Policy and Guidance documentation is being reviewed. The Senior Resilience and Emergencies Officer will conduct quarterly reviews on the frequency and level of BC training conducted and recorded.
C	Members' Allowances	No Opinion Given	The audit reviewed a sample of travel and subsistence expense claims and Basic and Special Responsibility Allowances	March 2018	We found instances where there was a lack of detail disclosed in mileage and subsistence claims. Overall no issues were found with Basic or Special Responsibility Allowances (SRA).	Information was provided to the s151 Officer for further follow up.

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D	Revenue Budget Management	Substantial Assurance	The audit examined whether budgets were set in an organised and consistent manner and at the correct level. The audit also reviewed whether budget managers had the necessary tools to forecast and manage their budgets effectively and whether budget monitoring was delivering the required objectives. The audit focused on high risk budgets within HAS and CYPS.	May 2018	At the time of the audit, some budget managers were not finding the new system easy to use and so were reverting to less effective methods e.g. using spreadsheets for budgeting purposes. Some managers also felt they still needed additional training and support to use the system properly.	**Two P3 actions were agreed** **Responsible Officer** Head of Strategic Finance Head of Internal Clients The issue log was reviewed and proposed actions reported to Finance Leadership Team Visits were arranged to other organisations where there is evidence that the system is being used more effectively. Budget managers were encouraged to undertake online courses. 'Classroom' training resource now developed with positive feedback and rolled out to teams.
E	Creditors	Reasonable Assurance	The audit reviewed the process for making changes to bank accounts. The new P2P process was reviewed and documented.	May 2018	The verification process for changes to bank account details was not being followed consistently, and on occasion there was insufficient documentation to verify what checks had taken place. Potential issues with the authorisation levels within P2P were also highlighted, although at the time of audit, there was insufficient data to identify the	**One P3 action was agreed** **Responsible Officer** Business support team leader To improve evidence of checks, the team will stamp changes with verified in red – date and initial. Guidance notes also to be reviewed.

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					impact of the current authorisation levels. This will be reviewed in a later audit.	
F	Pension Fund Income	Reasonable Assurance	The audit reviewed the processes for receiving payments, and reconciling the payments received to Oracle and the bank account. A detailed review of payments relating to strain payments and member transfers was carried out.	June 2018	The audit found that generally correct and timely payments are received from employers, although some issues were identified for some of the smaller employers particularly academy schools. Processes are in place for monitoring and recovering strain on the fund payments from employers and for the monitoring and recording of income from member transfers in from previous employment. The main issues identified relate to the efficiency of processes in place, and processes used to share information and to request work from other service areas.	**Three P2 and six P3 actions were agreed** **Responsible Officer** Head of Pensions Administration Senior Accountant A new Employer Contributions spreadsheet has been produced for 2018/19. A shared data transfer area has been created. Issues related to the production of debtors invoices will be addressed as part of the Income and Debt Management project.
G	Pension Fund Expenditure	Reasonable Assurance	The audit reviewed the processes in place for setting up new pension payments, ending pension payments when entitlement ceases and adjusting payments when there are changes in circumstances.	June 2018	There is no service level agreement between the NYPF and Employee Support Services (ESS) that identifies the responsibilities and expectations of each party. No checks are carried out to ensure people in receipt of dependant pensions over the age of 18 are still	**Three P2 and six P3 actions were agreed** **Responsible Officer** Head of Pensions Administration Senior Accountant A service level agreement with

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					attending courses once the initial confirmation has been received. There is no periodic reconciliation between the NYPF Altair system and the NYCC ResourceLink system. The process and procedures currently in place are not sufficiently robust to provide assurance that the annual pensions increase has been applied correctly and fully.	ESS will be agreed with a schedule of reviews. The process has been amended to ensure the annual review is undertaken each November. Confirmation of continuation of education is requested annually. A planning meeting was held this year and will be part of the standard process in future for annual pension increases. An electronic checklist will be created to evidence review and sign off by all parties. A reconciliation project has commence in 2018/2019 and 6 monthly reconciliations will be scheduled
H	Main Accounting	High Assurance	The audit reviewed the processes in place for managing and authorising journals, and the control of suspense and control accounts and reconciliations. The audit also reviewed the processes for providing and reviewing access to the Oracle system.	July 2018	Controls and processes were found to be effective. One application for access was authorised by a person who could not be located on the NYCC email list, and the authoriser had only provided a hotmail email account.	**One P3 action was agreed** **Responsible Officers** Head of Technical Finance Individual access requests to be reviewed and procedures amended as required.
I	Debtors and Income	Substantial	The audit reviewed the process	July 2018	Controls and processes were found	**One P2 and two P3 actions**

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	Management System	Assurance	for the creation of invoices, how outstanding debt is recovered, and the processes in place for making adjustments and write offs.		to be effective. Budget managers do not receive reports on the outstanding debt on their codes and may therefore be unaware of potential bad debts. Also service managers have contacts with debtors but may not be aware of debt levels to assist the recovery process. The officer authorisation list has not been update for a number of years	**were agreed** **Responsible Officer** Head of Technical Finance A debt management dash board is currently being developed by the Data Intelligence Team (T&C) as part of the Income and Debt Management Project. The dashboard will identify the level of debt owed for each budget code. The Officer Authorisation List to be updated and reviewed annually.
J	Pension Fund Governance Arrangements	Substantial Assurance	The audit reviewed the procedures and controls in place surrounding the governance arrangements for the NYPF. This included reviewing compliance with part 3 of The Local Government Pension Scheme Regulations 2013 (including subsequent amendments), CIPFA guidance on the Annual Report, and ensuring all statutory documents are in place.	July 2018	The governance arrangements for the NYPF were found to be good. NYPF is in general complying with the regulatory and best practice guidance. A number of employers did not provide prompt accurate data and as a result benefit statements were issued late to some scheme members. The fund is allowed to impose financial penalties on those employers but to date has not done so and has not reported the details of the employers involved to the Pension Board or Committee.	**One P2 and three P3 actions were agreed** **Responsible Officer** Head of Pensions Administration Senior Accountant Assistant Chief Executive (Legal and Democratic Services) Analysis of the 2018 year end was undertaken and reported to the Pension Board and Pension Fund Committee in October 2018.

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					It is a requirement for the NYPF Pension Board to maintain a written register of dual interests and responsibilities which have the potential to become conflicts of interest. However, no register of interests could be provided. Some other minor areas of non-compliance with regulations and report requirements were identified.	Charging will be reintroduced for the 2019 year end. Support and training will be offered to help employers improve data quality for the 2019 year end to avoid the fines. A conflicts of interest register has been produced and will be updated on an annual basis.
K	Closedown of Statement of Accounts	High Assurance	The audit reviewed the processes in place for the closure of accounts to ensure earlier closedown. The audit compared processes in place to best practice guidelines issued by CIPFA and Grant Thornton, and also how lessons are learnt to improve processes for future years.	December 2018	No significant control issues were identified.	**No actions were reported that require further action.**

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.