

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

13 DECEMBER 2021

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 period to 30 November 2021 in respect of information technology (IT), corporate themes, and contracts and procurement.

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 30 November 2021. It should be noted that 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.

3.0 WORK CARRIED OUT DURING THE PERIOD TO 30 NOVEMBER 2021

- 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 ongoing advice and support to various corporate / project groups; including the Supply Chain Resilience Board and the Contracting Project Board

- 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;
- contributing to the development and roll-out of the procurement strategic action plan, including participation in a number of delivery areas;
- reviewing processes and procedures in place within property services for managing the responsive repairs contract;
- carrying out investigations into 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 In addition to the IT audits detailed in **appendix 1**, there has been coverage of IT related controls and activities as part of general audits where key IT systems are in operation. As part of directorate based plans, audit work has also covered procurement and/or contract related matters.

3.4.1 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**. Where the audits undertaken focused on systems development, the review of specific risks as requested by management or value for money then no audit opinion has been given. The work completed and the opinions given following each audit contribute to the annual report and opinion of the Head of Internal Audit.

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 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.**

3.6 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 **RECOMMENDATION**

4.1 That Members note the results of internal audit work performed in the period in respect of the Council's information technology, corporate and contract arrangements.

Max Thomas
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

25 November 2021

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau.

Report prepared by Stuart Cutts, Assistant Director – Audit Assurance, Veritau and presented by Max Thomas, Head of Internal Audit, Veritau

APPENDIX 1

INFORMATION TECHNOLOGY - FINAL AUDIT REPORTS ISSUED IN THE PERIOD TO 30 NOVEMBER 2021

	System/ Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Server Administration and Security	Substantial Assurance	<p>A server is a computer, a device or program that is dedicated to managing network resources. The council manages around 450 virtual servers that carry out a wide range of tasks.</p> <p>The purpose of this audit was to review whether:</p> <ul style="list-style-type: none"> • access to the data centre is limited to authorised personnel • the data centre is adequately protected by environmental controls • the performance of the Council's servers is closely monitored to ensure that they are meeting the 	October 2021	<p>The council moved to a new purpose built data centre on the NYCC campus in January 2020. The data centre has a number of features to prevent unauthorised individuals from accessing it and environmental controls to protect the equipment inside.</p> <p>The Core Infrastructure and Applications (CIA) team monitor key characteristics of the servers to ensure there is capacity to meet user demands.</p> <p>There are a small number of operating systems used by the council that are no longer supported by the supplier. There is a low risk that vulnerabilities in these operating system could be exploited by malicious individuals/malware. Assurances have been received from the relevant services that these will be phased out once the</p>	<p>Three P3 actions were agreed</p> <p>Responsible Officers: Senior Systems Officer, Finance & HR Systems Team Leader</p> <p>The results of the vulnerability scanner will be reported to senior management on an annual basis.</p> <p>The CIA team will document all processes and procedures as listed by ISO 27002.</p> <p>Both actions are planned to have been completed by the end of April 2022.</p>

System/ Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>requirements of end users</p> <ul style="list-style-type: none"> the Council's servers are securely configured to reduce the potential points of attack. 		<p>applications they host are upgraded.</p> <p>The Council has a method of reviewing the vulnerabilities on the network through a vulnerability scanner. The Council has decreased the amount of critical vulnerabilities on the network. However, the results of the vulnerability scanner should be reported to senior management.</p>	
B	Firewalls	Substantial Assurance	<p>A firewall is a network security system that monitors and controls incoming and outgoing network traffic based on predetermined security rules.</p> <p>The purpose of this audit was to review whether:</p> <ul style="list-style-type: none"> roles and responsibilities for managing the firewalls were clearly defined 	November 2021	<p>Full logical access to the firewalls is restricted to senior members of the team. Changes can be made by senior members or by other team members but they must be authorised first.</p> <p>The Unified, Endpoint and Security Team are kept aware of the implementation of new applications and the number of users, which may affect the capacity of the firewalls. After comparing the firewall log with best practice, we suggested a small number of improvements.</p>	<p>Two P3 actions were agreed</p> <p>Responsible Officer: Assistant Director Technology and Change</p> <p>The suggested firewall log improvements will be reviewed and updated if/as required.</p> <p>A report will be run to determine which firewall rules are unused or when they were last used. Based</p>

System/ Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<ul style="list-style-type: none"> only authorised users could make firewall changes firewall rules and configurations were monitored and reviewed on a regular basis. 		<p>The council's rules are documented within the firewall. However, the firewall rules are not routinely reviewed. Whilst this is a low risk due to the change management processes in place that require users to set up the rules, it is best practice to review the rules of the firewall periodically.</p> <p>There is a support contract in place for the firewalls for preventative and responsive maintenance. The firewalls are tested by external organisations via penetration tests on an annual basis.</p>	<p>on this work officers will initially disable and then delete rules that have been identified as unused or not used for a defined period.</p> <p>All actions are planned to be completed by the end of 2021.</p>

APPENDIX 2

CORPORATE THEMES - FINAL AUDIT REPORTS ISSUED IN THE PERIOD TO 30 NOVEMBER 2021

	System/ Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	County Catering	No Opinion	<p>Saffron is the primary reporting system for the catering team. It aids performance reporting, menu costing, invoice payment and stock control. In 2020, discrepancies between information recorded on Saffron and information held elsewhere, were highlighted.</p> <p>The purpose of our audit was to:</p> <ul style="list-style-type: none"> • review the current processes in place to identify any weakness in control • assess whether the issue was identified in a timely manner 	December 2020	<p>The issue was caused by the way the Saffron system processed stock information. The system would input the purchase of two or more items as one, and to the value of one item. This decreased food costs and understated purchase values.</p> <p>There was a lack of any interface between Saffron and other Council systems (such as Oracle which records all invoice data) resulting in heavy reliance on direct manual intervention from team members for information to progress. This inevitably led to increased administrative time and left the process open to error.</p> <p>Reconciliations performed by the team with other Council systems were found to be unreliable, time-consuming and inefficient. When an example of this</p>	<p>Two P2 actions were agreed</p> <p>Responsible Officer: Business Operations Manager – Facilities Management, Strategic Resources (CYPS)</p> <p>A sample of invoices will be checked upon receipt from YPO to ensure they are imported correctly. A full invoice and stock reconciliation will be completed on a half-termly basis.</p> <p>At the end of each half-term, a full invoice reconciliation for all suppliers will take place between Saffron and Oracle to ensure the invoices are in each</p>

System/ Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<ul style="list-style-type: none"> identify improvements to the current processes which may have led to the issue being avoided entirely or identified at an earlier date. 		<p>reconciliation was reviewed we found that it did not reconcile.</p> <p>A number of issues were identified which collectively led to a delay in identifying the discrepancy. Factors outside of the team's control, such as the issue with YPO's invoicing system, contributed to the delay. However, if complete and regular reconciliations had been performed, and the stock management section of Saffron had been fully utilised, the discrepancy would have probably been identified at an earlier date.</p>	<p>system and at the same purchase value.</p> <p>A stock usage reconciliation will also be carried out to 'stock-adjust' the Oracle purchases with the opening and closing stock figures in Saffron.</p>
B	Governance of Council Companies	Substantial Assurance	In 2020, three high profile public interest reports were published following problems at other councils. The issues highlighted the potential financial and reputational risks for councils who have trading companies. These reports identified weaknesses in governance, scrutiny,	March 2021	The roles and responsibilities of directors were found to be clearly understood. Financial oversight over the companies was also good. Each company has arrangements in place to produce regular financial and performance related information, which is available to the shareholder(s). Each company also has access to internal financial expertise or	<p>One P2 and two P3 actions were agreed</p> <p>Responsible Officer: Corporate Director – Strategic Resources</p> <p>Management acknowledged the findings of the report and that further work was required.</p>

System/ Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
		<p>oversight of operations, and financial management within companies owned by other councils.</p> <p>The purpose of this audit was to review governance at NYCC owned companies to confirm:</p> <ul style="list-style-type: none"> roles and responsibilities of directors, shareholder representatives and elected members were clearly communicated and understood reporting arrangements allow the council, as the shareholder, to maintain effective oversight of company operations and performance the Council, as shareholder, 		<p>NYCC Finance staff via service level agreements.</p> <p>Reporting arrangements to allow the Council to maintain effective oversight of company operations and performance were in place. Regular board meetings are held in all but one company</p> <p>Our review found only two companies required directors to submit formal declarations of interests regularly. For the majority of companies, declarations of interests was found to be a standing board meeting agenda item and any issues declared would be shown in the minutes.</p> <p>There is currently no strategic risk management process in place at NYCC to identify, assess and manage risks to the Council arising from its individual commercial companies. Directors of the Brierley Group companies, particularly non-executive directors had not</p>	<p>Training at some of the companies has already taken place and is likely to be completed at others.</p> <p>Commercial Governance was also discussed as part of the last Strategic Resources risk review and it was agreed that the risks associated with commercial companies needed to be more specific.</p> <p>Wider CIPFA guidance linked to the issues raised in the public interest reports is due imminently. We will complete a follow up exercise in 2022 after this guidance has been issued.</p>

System/ Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<p>communicates its vision and priorities to each company's board of directors</p> <ul style="list-style-type: none">• risks to the continuing success of the Brierley Group have been effectively identified, documented and are actively managed.		<p>received periodic training on their roles and responsibilities.</p>	

APPENDIX 3

CONTRACTS - FINAL AUDIT REPORTS ISSUED IN THE PERIOD TO 30 NOVEMBER 2021

	System/ Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Assurance Frameworks at Council Companies - Procurement	Reasonable Assurance	<p>The purpose of the audit was to assess whether:</p> <ul style="list-style-type: none"> each company's Contract Procedure Rules (CPRs) reflected public procurement regulations and best practice, and the council's commercial aspirations each company's scheme of delegated authority was appropriate for the business the correct procurement procedures were being followed by each company each company's board was challenging the 	April 2021	<p>The audit found that the CPR's of each company supported effective procurement and contract management.</p> <p>The CPR's for Align Property Partners and Brierley Homes should include clearer definitions, and none of the CPR's made reference to the use of electronic signatures. Some more specific feedback on exceptions and waivers was also provided.</p> <p>There is no standard form of Contract Register in use and no accurate record of when contracts are due to expire.</p> <p>All the companies had schemes of delegation in place covering procurement and ordering. However, the relevant delegated authority was not always fully or accurately reflected in the CPR's.</p>	<p>Four P3 actions were agreed</p> <p>Responsible Officer: Head of Procurement and Contract Management</p> <p>The existing CPR's will be reviewed and updated as necessary.</p> <p>The scheme of delegation and contract registers will also be reviewed and updated as part of this work.</p> <p>Comprehensive procurement and contract management process training will be developed and delivered to all NYCC trading companies.</p>

System/ Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			procurement processes followed and ensuring compliance with the company's CPR's.			The actions are due to be completed by the end of April 2022.
B	Contract Management Function	No Opinion	<p>The Council is undertaking a contract and commissioning review. As part of this a strengthened central contract management function has been recommended to help ensure contract management processes are robust and effective across all council services.</p> <p>The purpose of this audit was to provide assurance that:</p> <ul style="list-style-type: none"> the contract management toolkit and the support provided is appropriate and fit for purpose 	June 2021	<p>The contract management toolkit and the support provided is appropriate and should assist in effective contract management. We found that contracts managed in line with the toolkit are risk assessed using consistent and comprehensive criteria.</p> <p>All contract management tools are supported with guidance for contract managers on how and when the tools should be used. From the sample of contracts reviewed, we found that the contract management toolkit was being used effectively by officers.</p> <p>We found improvements in the management of some contracts due to the use of performance meetings. One contract benefitted from improved and detailed monitoring of KPIs, as</p>	<p>One P3 action was agreed.</p> <p>Responsible Officer: Head of Procurement and Contract Management</p> <p>We will continue to promote and encourage completion of the training.</p> <p>The centralised Contract Management Function remains a priority and will support some of the wider improvements planned by the Council. The restructure is planned to be completed by May 2022.</p>

System/ Area		Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			<ul style="list-style-type: none"> the contract management toolkit is used effectively by officers to manage contracts the proposed central contract management function is suitable to increase the effectiveness of contract management. 		<p>well as a more proactive review of risks through the contract's risk register.</p> <p>However, there was low engagement with the e-learning module and contract management toolkit from contract managers.</p> <p>The implementation of the central contract management function had been delayed due to the impact of Covid-19 and increased demands due to Local Government Reorganisation.</p>	

AUDIT OPINIONS AND PRIORITIES FOR ACTIONS

Audit Opinions	
Our work is based on using a variety of audit techniques to test the operation of systems. This may include sampling and data analysis of wider populations. It cannot guarantee the elimination of fraud or error. Our opinion relates only to the objectives set out in the audit scope and is based on risks related to those objectives that we identify at the time of audit.	
Opinion	Assessment of internal control
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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.