

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 MARCH 2018

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 2018 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 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 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;
 - Providing support to the Finance 2020 project including 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**. Some of the audits undertaken in the period focused on the review of specific risks as requested by management so did not have an audit opinion assigned to them.

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 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. 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 (ie 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 Central Services directorate is that it provides **substantial assurance**. There are no qualifications to this opinion

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.

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 Central Services Directorate is both adequate and effective.

MAX THOMAS
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

13 February 2018

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 | Payment Card Industry Data Security Standard | Limited Assurance | The audit reviewed the processes in place to ensure compliance with the Payment Card Industry Data Security Standard (PCI DSS) | March 2017 | <p>Overall we found officers within the council are aware of PCI DSS and recognise the need for compliance with the standard.</p> <p>However, no senior officer had been allocated responsibility for managing compliance with PCI DSS. There was also no strategy or policy to help ensure compliance with the standard. Work had also not been completed to ensure all processes and systems that accept payment by card had been identified and assessed. As a result, relevant staff may not have received training and the council has not established which PCI DSS self-assessment questionnaire(s) it needs to complete.</p> | <p>Five P2 actions were agreed</p> <p>Responsible Officer Assistant Director Strategic Resources</p> <p>The AD (strategic resources) has now been identified as the lead officer and is leading the project to ensure compliance and develop appropriate policies and processes.</p> |
| B | Business Continuity and Disaster Recovery | Substantial Assurance | The audit followed up the agreed actions from the 2015/16 audit report to ensure that those actions scheduled for implementation were complete. The audit also assessed whether sufficient progress was being made for those actions with longer completion dates. | March 2017 | The audit found that progress is being made in implementing the agreed actions from the previous audit report. Business continuity champions have been identified and they are aware of their responsibilities. The champions are required to review plans and ensure two way communications. | A further follow-up audit will be undertaken to ensure progress is maintained. |

| | System/Area | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|---|--------------------------|----------------------|--|-------------|---|--|
| | | | | | At the time of audit not all business continuity plans had been updated, however a suitable plan was in place to ensure this work is completed. | |
| C | Pension Fund Expenditure | Reasonable Assurance | The audit reviewed the processes and controls in place for making changes to pension records to ensure all changes are carried out promptly and accurately. The audit also reviewed processes to ensure the Pension Altair system and relevant ESS payroll records are reconciled on a periodic basis. | April 2017 | <p>The audit found that there is no systematic reconciliation between the Altair system and the ESS ResourceLink system. Errors and inconsistencies between system records may therefore not be identified.</p> <p>There are a number of pensioners in receipt of small monthly payments where the processing costs exceed the actual payments made.</p> <p>The guidance for processing a deceased pensioner record is not sufficiently detailed and therefore ESS and the NYPF are not sufficiently aware of each others responsibilities. As a result this has occasionally resulted in delays in stopping or recalling payments.</p> | <p>One P2 and three P3 actions were agreed</p> <p>Responsible Officer Head of Pensions Administration</p> <p>Consideration will be given to introducing an annual reconciliation between both systems. The possible impact on other projects and resources would however need to be taken into account.</p> <p>Subject to developing appropriate protocols, the Pension Fund agrees with the recommendation to make some pension payments on an annual basis. Further discussions will take place to understand the necessary system changes to enable this to happen.</p> <p>A further exercise will be carried out to obtain death</p> |

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|---|------------------|------------------|---|-------------|--|--|
| | | | | | | <p>certificates and update Altair and ResourceLink records for cases which have been suspended.</p> <p>Deadlines will be clarified for payroll runs so that staff are clear what action can and should be taken to stop individual payments so as to prevent overpayments occurring.</p> |
| D | Asset Management | No Opinion Given | <p>The audit reviewed the progress being made to ensure that the property portfolio is managed effectively and meets the future planned accommodation requirements of the Council.</p> <p>The audit also reviewed payments made to Mouchell to check they were accurate and in accordance with the service ordered.</p> | May 2017 | <p>Good progress is being made. Work is ongoing to convert the management of the property portfolio from a directorate based system to a corporate system. This is a significant task and will take time to complete. At the time of the audit, a plan for the next 12 months had been developed. Some further long term planning was also being developed across all areas.</p> <p>Details of the council's property portfolio are held on an asset management system called 'Concerto'. It is anticipated that it will take around three years to update the system and produce meaningful data in all the required areas.</p> <p>The Corporate Property review to</p> | No actions were reported that require further action. |

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| | | | | | <p>support the 2020 programme is well under way. It is anticipated that the review will be complete by May 2018.</p> <p>Payments to Mouchell for work done from April to September 2016 were checked. All the payments tested were found to be timely, accurate and agreed to the details of the service ordered.</p> | |
| E | Debtors and Income Management System | Reasonable Assurance | The audit concentrated on the creation and maintenance of debtor accounts, the processing of invoices and debt recovery. | June 2017 | <p>There are a large number of duplicate debtor accounts created due to data quality issues. This creates inefficiencies and potential confusion.</p> <p>The Credit Control Team is currently required to manually print all invoices and recovery letters, which are then posted. The time taken to undertake this process has an impact on recovery work and other activities. Although all accounts reviewed had the appropriate recovery action scheduled, in a number of cases reminders were not issued within the required timescales but were instead held up in the work queue. It was also noted that the number of debts requiring recovery action at the end of March 2017 was around 30% higher than the previous year</p> | <p>Two P2 and one P3 actions were agreed</p> <p>Responsible Officer Head of Technical Finance</p> <p>The creation of Debtor Accounts and the recovery process will be considered as part of the Income and Debt Management Project.</p> <p>The functionality necessary to send invoices via email to customers is currently being investigated by the Systems Team within T&C.</p> |

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| | | | | end figure. | |
| F | Main Accounting | Substantial Assurance | June 2017 | <p>The controls and procedures within the Main Accounting system were generally found to be working effectively and efficiently.</p> <p>Journals were input as expected and no orphan cost centres were identified. However, testing discovered a small number of duplicate journal entries had been entered by Oracle users and remained undetected before the journal was posted. After the journals were posted, some but not all were detected as duplicates by budget managers and corrected.</p> <p>Delays have also occurred in the roll out of Oracle compared to the original programme timetable. The delays were caused by the decision to include planning and forecasting within the scope of the programme (after the project commenced) and because the complexities / resource requirements of data migration were underestimated.</p> | <p>Two P3 actions were agreed</p> <p>Responsible Officer Head of Technical Finance</p> <p>The list of identified duplicate journals was reviewed and corrected as appropriate. Integrated Finance will continue to monitor and review the process periodically.</p> <p>Management were aware of and recognised the reasons behind the delayed implementation of Oracle. These issues are being picked up as part of the review of Oracle implementation.</p> |
| G | Creditors | Reasonable Assurance | July 2017 | <p>Pending the full implementation of the electronic P2P system, the council continues to operate a largely paper based system, which</p> | <p>Four P2 and one P3 actions were agreed</p> <p>Responsible Officers</p> |

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|---|-----------------------------------|-----------------------|---|-------------|---|---|
| | | | <p>and procedures. The audit also reviewed the process for changing supplier bank account details so as to ensure sufficient verification takes place to protect the Council against fraud</p> | | <p>has a number of inherent weaknesses in such a large organisation.</p> <p>There is no authorised signatories list as the document would be impractical to maintain. However, although no inappropriate purchases were identified during testing, a number of payments were identified where there was no separation of duties, or where goods receipt was not recorded.</p> <p>In addition, the Finance Manual was not available on the intranet to provide guidance to staff.</p> <p>Whilst there are clear guidelines on the verification checks which need to be completed when processing requests to amend supplier bank account details on Oracle these guidelines are not being followed in all cases.</p> | <p>Head of Business Support Head of Technical Finance Business Support Manager</p> <p>Reminders have been issued to staff within business support to ensure they sense check the information on invoices, and to managers to ensure they understand the importance of checking expenditure and goods receipting.</p> <p>A note has been added to the intranet page for the Finance Manual directing staff to the Finance Enquiries Service, and the manual will be uploaded once it has been updated.</p> <p>A PowerPoint presentation about the importance of verifying changes to bank details will be delivered to Business Support Staff.</p> |
| H | Budget Preparation and Management | Substantial Assurance | <p>The audit reviewed the progress made in the implementation of the new Oracle system, and how this has improved procedures to make budget preparation and management more effective.</p> <p>A survey was issued to budget</p> | July 2017 | <p>Whilst training had been provided to most budget managers, only a third felt that they had adequate knowledge of the system. A number of budget managers also asked for additional training.</p> | <p>Two P3 actions were agreed</p> <p>Responsible Officers Assistant Director Strategic Resources Head of Finance – Internal Clients</p> |

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| | | | <p>managers by the Finance Team seeking feedback on the changes. Discussions were then held with a sample of managers as part of the audit. The extent to which the new Finance Enquiry Service (FES) is being utilised by managers was tested through data analysis and comparison of performance indicators.</p> | | <p>All of the managers interviewed stated that the forecasting process was time consuming and the new BI Dashboard was too busy and not user-friendly.</p> <p>The majority of the budget managers felt that FES was useful for back office amendments to their budgets. However, a number of managers commented that FES staff sometimes did not have sufficient service knowledge and that more complex enquiries could therefore take longer to resolve.</p> | <p>Finance is developing an e-learning course to be rolled out to all budget managers. In addition, a captivate video resource will be created to provide a visual reference for how to utilise the Dashboard and forecasting tool.</p> <p>The budget manager hierarchy has recently been restructured with team managers formally assigned to cost centres as budget managers and strategic managers assigned to strategic level parent codes.</p> <p>The current priority matrix system for enquiries will be reviewed as part of a wider evaluation of the FMS.</p> |
| I | Bank Accounts and Mandates | Substantial Assurance | <p>The audit reviewed the controls in place for the operation of the Barclays Business Internet Banking system to ensure appropriate segregation of duties, clear permissions and authorisation limits are in place and that there is a suitable secure process for adding and removing users.</p> | August 2017 | <p>The council has a 'complex mandate' in place which means that for any payment there must always be two authorised signatories processing the transaction.</p> <p>However, there is no formal process for dealing with users who no longer require access to the system. At the time of audit it was not possible to remove suspended users from the system. As a result</p> | <p>Two P2 and one P3 actions were agreed</p> <p>Responsible Officer Head of Technical Finance</p> <p>Key contact details have been changed, and the upgrade of the system has taken place. The system upgrade added the functionality for System Administrators to remove</p> |

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| | | | | | <p>there were a large number of suspended users who were no longer employed by the council. The details for the NYCC designated contact with Barclays were also out of date.</p> <p>It is the sole responsibility of the system administrators of organisations that use the Barclays Business Internet Banking facility to manage their user access arrangements. Barclays do not acknowledge when changes are made or if they suspend an account due to inactivity or make any other changes.</p> | <p>suspended users from the system. Technical Finance now undertake a periodic review of Internet Banking users to ensure user accessibility is up to date The change notification process with Barclays will be reviewed as part of the annual service review process.</p> |
| J | Pension Fund Income | Substantial Assurance | <p>The audit reviewed the procedures and controls to ensure data submitted by employers to NYPF was complete and contained the correct information, and that the data was subject to appropriate checking and validation prior to submission. The audit also reviewed action taken as a result of the previous audit where a different sample of employers was checked.</p> | August 2017 | <p>Prior to the information being submitted to the NYPF a 10% sample check of records was undertaken by ESS staff. Evidence on this checking was retained. However, it was unclear how the sample was selected and if the sample covered a suitable variety of scenarios.</p> <p>The guidance now issued to employers clearly shows that the completion and return of the checklist is a mandatory requirement and the year end file will not be processed if this is not done. There is also an expectation</p> | <p>Two P3 actions were agreed</p> <p>Responsible Officers Head of Pensions Administration</p> <p>NYPF will include wording in the email issued January / February each year to provide guidance to employers advising which categories of members should be included in the checking exercise.</p> |

| System/Area | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken | |
|-------------|--------------------------|-----------------------|---|--|--|--|
| | | | | that the checklist will be signed off by someone who is on the NYPF authorised signatory list. | | |
| K | Pension Fund Investments | High Assurance | The audit reviewed the insurance cover, control reports and annual reports for all investment managers, and the external audit of investment fund control procedures. The audit also reviewed the reconciliation of invested funds. | September 2017 | No significant control issues were identified. | No actions were reported that require further action. |
| L | Pensions Altair System | Substantial Assurance | The audit reviewed the access controls and business continuity arrangements for the Altair system which is used for the administration of the Pension Fund. | September 2017 | All the expected key controls are in place and these are generally operating effectively. Relevant security patches and software updates are rolled out when required and there is a suitable process in place for changes to system access. Settings for historic passwords are low and there is no minimum password age, although this is not something that can be changed by the systems administrator. The Altair system has been considered in disaster recovery and business continuity planning, with documented procedures in place such as the Pensions Incident Management Plan. | One P3 action was agreed Responsible Officers Systems Team Leader The systems provider has been contacted to request that improvements to password controls are considered as a development area. |
| M | Pension Fund | Reasonable | The audit reviewed the | October | ESS currently perform a random | Two P2 and one P3 actions |

| System/Area | Audit Opinion | Areas Reviewed | Date Issued | Comments | Action Taken |
|-------------|---------------|--|-------------|--|---|
| Expenditure | Assurance | processes and controls in place for making changes to pensions and to ensure all changes are carried out promptly and accurately | 2017 | <p>10% check of records that appear on exception reports. However, although the checks are carried out thoroughly they are not targeted to possible higher risk cases.</p> <p>ESS will suspend a pension when requested, but will only end the record and recover any overpayments once they have received a copy of the death certificate. During testing 3 cases were identified where formal death notification had been received by the Pensions Team but this had not been sent to ESS and therefore no recovery of overpayment had taken place. In addition, there were a number of accounts which had been suspended for a long time because it has not been possible to obtain a death certificate.</p> <p>Testing of dependant pensions identified one case where there was no evidence of continued education, but a dependant pension was still in payment.</p> | <p>were agreed</p> <p>Responsible Officer Head of Pensions Administration</p> <p>The Pensions Team will work with the ESS Manager to ensure clear documented guidance is available detailing the purpose of the exception reports and the checking required on each.</p> <p>ESS staff have been provided with access to Altair so they can locate the death certificates themselves. However, there is a need to re-establish this as part of agreed death process.</p> <p>The resolution the of outstanding backlog caused by missing death certificates is underway. A review of the process will take place to ensure administration keep on top of certificate requests.</p> <p>The process for monitoring children's pensions will also be reviewed.</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. |