

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

20 DECEMBER 2019

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 2019 for the Business and Environmental Services (BES) directorate.

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 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 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' procedures

- 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. The work completed for the directorate and the opinions given following each audit contribute to the annual report and opinion of the Head of Internal Audit.
- 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 Business and Environment Services Directorate is both adequate and effective.

MAX THOMAS
Director and Head of Internal Audit

Veritau
County Hall
Northallerton

4 December 2019

BACKGROUND DOCUMENTS

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

Report prepared by Stuart Cutts, Internal Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit and Director of Veritau.

FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 30 NOVEMBER 2019

System/Area	Audit Opinion	Areas Reviewed	Date Finalised	Comments	Action Taken
A	Highways Maintenance Contract	Substantial Assurance	December 2018	<p>There was an ongoing and appropriate plan to manage the value of work under the contract. Key risks in this area were being effectively managed.</p> <p>Work was also ongoing in deciding the future options for the delivery of highways and transportation works. A project plan had been developed, with a decision for the future provision of services planned for April 2019, subject to approval by Executive and Full Council</p> <p>Some information had been provided by Ringway but this was insufficient to allow a full cost comparison. Some further data cleansing was required to enable a suitable comparison to be made.</p>	<p>One P3 action was agreed.</p> <p>Responsible Officer: Corporate Director - Business and Environmental Services.</p> <p>Officers obtained all the information required to undertake the cost comparison. Senior management met with the Ringway regional director to discuss the price comparisons further.</p>
B	Local Enterprise Partnership	High Assurance	March 2019	<p>Good progress had been made with the government audit areas for development. Four recommendations had been fully completed. Work on the remaining two recommendations was also progressing.</p> <p>Risks to the future success of the LEP are primarily overseen by the Assistant Director. Meetings are held every 6 months with NYCC to review and update the risk register.</p>	<p>One P3 action was agreed.</p> <p>Responsible Officer: Assistant Director, Economic Partnership Unit.</p> <p>The Economic Partnership Unit's corporate risk register will be added to the existing LEP Assurance Update</p>

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			<ul style="list-style-type: none"> the government audit recommendations had been implemented; risks to the continuing success of the LEP had been effectively identified, documented and managed; The LEPs/Council's arrangements around the Annual Conversation Governance and Assurance Statement were robust. 		<p>Risks are being identified and reported at monthly senior management meetings. However, the registers were not currently communicated to LEP board members.</p> <p>The 2018/19 Annual Conversation review was due to take place after our audit fieldwork. We found the evidence to be put forward to be thorough and relevant. The assurance statement was also due to be discussed and approved at the Annual Conversation. The only risk (which was outside the control of the LEP) was in regards to the short deadlines between receiving the guidelines and the annual conversation meetings.</p>	<p>(Governance and Finance) report. This is a standing agenda item at each LEP board meeting.</p> <p>Generally, the risk register will be circulated for information only. However, members may become more should any of the risks increase significantly.</p>
C	Kex Gill Realignment Scheme	High Assurance	<p>The authority has embarked on a project to re-route the A59 at Kex Gill. We reviewed the project to ensure:</p> <ul style="list-style-type: none"> robust controls were in place for the management of the project; projects risks and appropriate planned mitigating actions had been identified and documented; relevant project risks were being appropriately managed. 	March 2019	<p>Clear governance arrangements were in place for the project. Roles and responsibilities of all individuals involved within the project were clearly defined.</p> <p>For the second stage of the project, there is a clear plan of actions. For the initial stage expenditure did not exceed the budget.</p> <p>Project risks have been identified during risk workshops which took place before major project milestones had been reached. We saw how risks had changed as the project progressed, and appropriate mitigating actions were in place for these risks.</p> <p>At the time of audit fieldwork the key project risk related to future funding. The project</p>	There were no actions from this audit.

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				team had submitted a business case to the Department for Transport (DfT) for approval and were awaiting further feedback.	
D	Allerton Waste Recycling Park (AWRP) - NYCC Processes	Substantial Assurance	<p>The Allerton Waste Recovery Park became operational in 2018. Our audit assessed whether:</p> <ul style="list-style-type: none"> the management information system was operating as intended, and the information obtained was valuable for monitoring the waste service and contract; the payment system was operating effectively and accurately; the relationship with City of York Council (CYC) was being managed appropriately; the dispute process was effective. 	<p>April 2019</p> <p>At the time of the audit fieldwork the Management Information System (MIS) was not fully live so information was not necessarily fully up to date or accurate. This meant that the invoice checking process was both time and resource intensive to complete. However, improvements were being made to the process and these issues were being addressed.</p> <p>The working relationships between CYC and NYCC were not yet formalised. The councils were using inter-authority agreements and a Joint Waste Management Agreement signed in 2011. These agreements need to be updated to reflect the operational AWRP contract and proposed joint service arrangements. The councils do meet on a monthly basis to discuss contractual issues so any significant problems should be resolved.</p> <p>A dispute process does exist and the arrangements are satisfactory if, and when, needed.</p>	<p>One P2 and two P3 actions were agreed.</p> <p>Responsible Officer: Corporate Director - Business and Environmental Services.</p> <p>The MIS was signed off by management in early 2019. Further work to do included:</p> <ul style="list-style-type: none"> arrange team training resolve historic queries from the monthly reporting process use the MIS built in query log resolve data discrepancies recalculate performance deduction points upon signing the Commercial Agreement ensure monthly data is input into annual forecasting models for the financial Annual Reconciliation process

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					<p>NYCC intend to finalise and sign a new shared services agreement. The new Head of Service is to develop the service delivery model using agreed parameters from the shared services agreement.</p>
E	Highways Maintenance Contract - Pain and Gain schemes	Reasonable Assurance	<p>All Highways Maintenance Contract capital schemes £10k+ are categorised as NEC 3 Option D schemes. The annual value of these schemes is approximately £19m. Option D schemes are subject to a 'pain and gain' clause included to encourage improved productivity and efficiency.</p> <p>The purpose of this audit was to provide assurance that:</p> <ul style="list-style-type: none"> • any delay in financial information being provided by Ringway is challenged in accordance with the contract; • financial performance information is used to effectively manage 'pain and gain' schemes; • contract processes, such as Project Management Instructions (PMIs) and Compensation Events (CEs) 	<p>June 2019</p> <p>For every option D scheme, relevant documents should be submitted within 20 weeks. However, we found that a significant number of documents were absent. The delay in information being provided has prevented the final values from being confirmed and signed off for both 2016/17 and 2017/18. Therefore no payment has been made.</p> <p>Ringway's Managing Quantity Surveyor explained there were difficulties with their accounting system that prevented them submitting information within 20 weeks.</p> <p>Where delays in financial information were occurring the issue was not being raised with Ringway in a timely manner. Similarly NYCC had stopped regularly sharing information with Ringway.</p> <p>Due to the lack of timely financial performance information available, the Commercial Services Team was unable to pro-actively monitor the current annual value of pain/gain.</p>	<p>Four P3 actions were agreed.</p> <p>Responsible Officer: Assistant Director, Highways and Transportation.</p> <p>The Commercial Services team will produce a monthly spreadsheet that proactively tracks the Option D schemes and requests the information required to calculate the pain/gain in advance of the deadline date within the agreed 20 week settlement period.</p> <p>All schemes within the financial year are to be identified and added to the list in programme delivery order to help ensure the spreadsheet is managed correctly.</p>

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			are recorded accurately and agreed in a timely manner.	We tested a sample of 10 schemes from 2017/18 that had forms, cost reports and contract systems completed. All 10 schemes had cost reports available. However we found that some forms were not authorised by both Ringway and NYCC.	We will arrange for Project Managers to attach emails to the Contract Management System (CMS) to show their agreements/communications in relation to the signing off of documentation relating to final targets and cost + fee values.
F	Concessionary Fares	High Assurance	<p>The Rate per Concession (RPC) paid to bus operators is currently calculated using the Department for Transport (DfT) guidance and calculator issued annually.</p> <p>We reviewed the concessionary fares process to ensure:</p> <ul style="list-style-type: none"> • data received from bus operators to serve as inputs into the DfT RPC calculator was accurate, and subject to challenge where appropriate • data entered into the DfT calculator by NYCC staff was input correctly and appropriate checks and safeguards were in place to confirm data quality • RPC calculations were performed correctly and the 	<p>October 2019</p> <p>There is an effective process in place for establishing operator's rate per concession, through the DfT calculator.</p> <p>The Senior Strategy and Performance Officer (SSPO) is responsible for calculating the RPC for each operator using the DfT calculator. All information is received on a manually completed spreadsheet from operators and 'sense checked' by the SSPO. The information is not checked against the ticket information obtained from the operators. The operators are then informed of the calculated RPC.</p> <p>Reliance is placed on the DfT guidance for carrying out the calculation. There are no internal procedures in place for staff to follow. The process is complex and good knowledge of the process is essential. Currently, the SSPO is the only officer competing the calculation. This lack of resilience represents a risk.</p>	<p>Two P3 actions were agreed.</p> <p>Responsible Officer: Assistant Director, Highways and Transportation.</p> <p>Some additional written procedures are to be prepared covering what to do in respect of operators supplying and not supplying local operational data.</p> <p>A number of operators do not use electronic ticket machines, so there will continue to be a reliance on spreadsheet data. For those operators that do operate electronic ticket machines we will establish a process for reimbursement based on the HOPs journey data.</p>

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			correct amounts were paid to bus operators.	We reviewed the payment information to ensure the appropriate RPC was applied to the reimbursement to the operator. No issues were noted. A reconciliation between the monitoring spreadsheet and Oracle is carried out half yearly to ensure the correct payments are being made. The monthly payments are monitored to identify any anomalies, or any unusual peaks.	

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.