



North Tyneside Council

Audit Committee

21 May 2019

Wednesday, 29 May 2019 0.01 Chamber - Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY **commencing at 6.00 pm.**

Agenda Item

Page

1. **Apologies for Absence**

To receive apologies for absence from the meeting.

2. **Declarations of Interest and Dispensations**

You are invited to declare any registerable or non-registerable interests in matters appearing on the agenda, and the nature of that interest. You are also invited to disclose any dispensation in relation to any registerable or non-registerable interests that have been granted in respect of any matters appearing on the agenda.

You are also requested to complete the Declarations of Interests card available at the meeting and return it to the Democratic Support Officer before leaving the meeting.

3. **Minutes**

5 - 10

To confirm the minutes of the meeting held on 27 March 2019.

4. **Summary of the 2018/19 Accounts**

To receive a presentation which sets out the current position in relation to the closedown of the Authority's accounts.

5. **Annual Governance Statement Update**

11 - 44

To give consideration to a report which advises the Committee of the outcome of the review of the Authority's systems of internal control as presented in the Annual Governance Statement which will assist it to consider the effectiveness of the Authority's arrangements for the governance of its affairs, including arrangements for management of risks and systems for internal control.

Members of the public are entitled to attend this meeting and receive information about it. North Tyneside Council wants to make it easier for you to get hold of the information you need. We are able to provide our documents in alternative formats including Braille, audiotape, large print and alternative languages.

Agenda Item	Page
6. External Audit Progress Report	
To give consideration to a report which provides an update on progress made in relation to the audit of the Authority to date.	
7. Strategic Audit Plan 2018/19 – Final Monitoring Statement	45 - 58
To give consideration to a report which provides the Committee with a final monitoring statement in respect of the 2018/19 Strategic Audit Plan.	
8. Key Outcomes from Internal Audit reports issued between November 2018 and April 2019	59 - 72
To give consideration to a report which advised the Committee of the key outcomes from Internal Audit reports issued between November 2018 and April 2019.	
9. 2018/19 Opinion on the Framework of Governance, Risk Management and Control	73 - 92
To give consideration to a report which sets out the Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, in accordance with the Public Sector Internal Audit Standards.	
10. Exclusion Resolution	
The Committee will be requested to pass the following resolution: Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.	
11. Corporate Risk Management Summary	93 - 168
To consider a report which sets out the corporate risk which have been identified for monitoring and management by the Authority's Senior Leadership Team	

Circulation overleaf ...

Members of the Audit Committee

Kevin Robinson (Chair)
Councillor Debbie Cox
Councillor Anthony McMullen
Councillor Martin Rankin
Councillor Judith Wallace

Malcolm Wilkinson (Deputy Chair)
Councillor Naomi Craven
Councillor Janice Mole
Councillor Paul Richardson

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Audit Committee

27 March 2019

Present: Mr M Wilkinson (Chair)
Councillors D Cox, N Craven, S Graham, J Harrison,
A McMullen, J Mole and J Wallace.

AC30/03/19 Apologies

An apology for absence was submitted on behalf of the chair, Mr K Robinson.

AC31/03/19 Substitute Members

There were no substitute members reported.

AC32/03/19 Declarations of Interest and Dispensations

Councillor S Graham declared a non-registerable personal interest in the following item as a family member was an employee of EY:

- Audit Planning Report.

AC33/03/19 Minutes

Resolved that the minutes of the meeting held on the 21 November 2018 be confirmed as a correct record and signed by the Chair.

AC34/03/19 Results of Certification Works 2017/18 - Mazars

The Committee was presented with a letter which provided the results of the certification works carried out during 2017/18 by Mazars, the Authority's external auditors. It was explained that the only return during 2017/18 related to the Housing Benefit subsidy. This return had been subject to an amendment and a qualification letter.

It was explained that during the testing process an error had been identified in one case where the state retirement pension had not been taken into account, following a change in circumstances, which had meant that the claimant was no longer entitled to full housing benefit. The Authority had identified where a similar situation had arisen and had corrected the error. It was explained that the matter had been included within the observations section of the qualification letter as the amendments had already been made within the housing benefits system.

The letter also set out the fees charged for providing this service.

Resolved that (1) the report be noted; and
(2) The Committee's thanks be forwarded to Mazars for their work on behalf of the Authority and the Committee.

AC35/03/19 Audit Planning Report

Consideration was given to a report which provided an update on the changes made in relation to the provision of an external audit service for the Authority. The report covered an overview of the 2018/19 audit strategy and identified a number of new risks which required consideration including whether there was a need to produce group accounts as a result of increased activity in the Authorities subsidiaries, the impact of the implementation of new accounting standards and financial sustainability. The report also advised the Committee that EY would be carrying out works to gain assurance that the opening balances were free from misstatement as this was the first year that they had carried out the Authority's external audit. It was also explained that further reports would be submitted on any audit differences of sums greater than the specified £0.29M where they warranted the attention of the Committee.

The report also set out the significant risks which had been identified for the current year's audit, the reason why the risks had been identified and the expected approach to the audit of those risks. It was noted that the risks identified in the report could change as a result of significant findings or subsequent issues being identified.

It was explained that the external auditors were required to consider whether the Authority has put in place proper arrangements to secure the economy, efficiency and effectiveness of its resources. Details of how EY would consider this were outlined.

The report also set out the timeline for the completion of the audit, the team which would be delivering the audit and how EY would make use of specialists in carrying out its work for the Authority including in relation to valuation of land and buildings, pensions and Private Finance Initiatives (PFI's).

Clarification was sought in relation to when it was likely that a decision would be made on the need for a group financial statement to be prepared. It was explained that EY were in discussions with the Authority and once a decision had been reached a report would be presented to the Committee.

Reference was made to the recent bad press that external audit firms had been subjected to and clarification was sought on how the Committee could be reassured. It was explained that there was an expectation that there would be changes to the audit sector in the near future. In respect of North Tyneside it was explained that quality monitoring had been included in the tender process and that EY had a team in place which understood the local government sector and it had a critical mass on the ground. Reference was also made to the transparency report which would be circulated to members

Resolved that the report be noted

AC36/03/19 Annual Statement of Accounts 2018/19

Consideration was given to a report which provided an update on the preparation of the 2018/19 annual statement of accounts. It was explained that detailed guidance notes had been published to remind officers of the deadlines and to provide advice on where to raise any concerns.

It was also explained that the team was working closely with the new External Auditors to understand their approach to the audit of the Authority's accounts and to understand their working paper requirements.

Reference was also made to the assessment of whether there was a need for group accounts to be prepared in relation to the trading company for 2018/19. It was also explained that regular meetings with Valuation had been carried out due to the high value of the assets and the changes in valuation techniques, especially in relation to the Authority's schools.

Resolved that the work in respect of the closure of the 2018/19 accounts be noted

AC37/03/19 Accounting Policies

Consideration was given to a report which set out the accounting policies to be used in the compilation of the annual statement of accounts. It was explained that in the annual Audit Committee statement of accounts the Authority was required to disclose how the accounting statements had been prepared. The accounting policies explained the basis for the recognition, measurement and disclosure of transactions in the accounts.

It was explained that changes to the accounting policies would only be made if the change was required by the Code of Practice on Local Authority Accounting in the UK or it would result in the statements providing more reliable or relevant financial information.

Details of the proposed changes and the reasons for the changes were set out.

Resolved that the Accounting Policies to be adopted by the Authority and used to compile the Annual Statement of Accounts for the financial year 1 April 2018 to 31 March 2019 be endorsed.

AC38/03/19 Proposed Audit Committee Work Programme 2019/20

Consideration was given to a report which set out a proposed programme of core business to be considered by the Committee during 2019/20 to ensure that it was able to discharge its duties effectively and efficiently. It was noted that there were a number of items which had to be dealt with at a specific time during the financial year whilst others could be considered as and when required.

Month	Item of Business
May 2019	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> • Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control • Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Draft Annual Governance Statement (and supporting information) <p><u>External Audit</u></p>

	<ul style="list-style-type: none"> • External Audit Progress Report • External Audit Fee Letter (including Terms of Engagement)
July 2019	<p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Completion Report (annual governance report) <p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> • Annual Review of Audit Committee Effectiveness
November 2019	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> • Interim Outturn Report (showing profiled performance against the Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update <p><u>Finance</u></p> <ul style="list-style-type: none"> • Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year) • Report on preparation of Annual Statement of Accounts 2019/20 <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Annual Audit Letter • Grants Report • External Audit Progress Report
March 2020	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> • Strategic Audit Plan (for the forthcoming financial year) • Annual Audit Committee Work Programme <p><u>Finance</u></p> <ul style="list-style-type: none"> • Report on accounting policies to be used in Compilation of Annual Statement of Accounts • Report on preparation of Annual Statement of Accounts 2019/20 <p><u>External Audit</u></p> <ul style="list-style-type: none"> • Audit Strategy Memorandum (audit plan)

It was noted that the above list was not exhaustive and items could be added to or removed from the list as business dictated.

Reference was made to the proposals for the annual review of the effectiveness of the Committee which was scheduled to be reported to the Committee at its July meeting. It was suggested that it might be helpful for a system to be put in place which would allow members to privately feed their views on the effectiveness of the Committee to the external auditors in advance of the July meeting. It was also suggested that further information be provided to members on the suggested process.

Resolved that (1) the proposed core business work programme for 2019/20 be agreed; (2) it be noted that it may be necessary to change or adapt the proposed reports to be considered by the Committee to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year; (3) it be noted that additional reports may be received on ad-hoc items of business which arose during the course of the year; (4) a background report be presented on the annual review of the effectiveness of the Committee to progress to the July meeting

AC39/03/19 Strategic Audit Plan 2019/20

Consideration was given to a report which outlined the planned work of the internal audit section over 2019/20. It was explained that internal audit had carried out an assurance mapping exercise of the key risks facing the authority.

It was explained that the Strategic Audit Plan outlined the approach taken to risk management and audit planning, the respective roles of management and internal audit in relation to internal controls, the relationship between internal and external audit and the quality standards that would be applied in the delivery of the Plan. The Plan also covered the resourcing of the internal audit team. It was also noted that the Strategic Audit Plan had been prepared in consultation with the Chief Executive, the Head of Resources and all other Heads of Service.

The Committee was advised that the Plan would be kept under review throughout the year and a half year progress update was scheduled to be presented to the November meeting of the Committee along with a full outturn report in May 2020.

Reference was made to the number of audit days available within North Tyneside. It was explained that 60% of the days were committed which allowed for a measure of flexibility across the two audit teams where it was required.

Resolved that the Strategic Audit Plan 2019/20 be approved.

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North Tyneside Council Report to Audit Committee Date: 29 May 2019

ITEM 5

Title: Annual Governance
Statement Update

Report from Service: Finance

Report Author: Janice Gillespie, Head of Resources (Tel: 643 5701)

Wards affected: All

PART 1

1.1 Purpose:

- 1.1.1 The Annual Governance Statement (AGS) explains how the Authority delivers good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 6(1)(a) of the Accounts & Audit Regulations 2015 which require the Authority to publish an AGS.
- 1.1.2 The purpose of this report is to advise the Audit Committee of the outcome of the review of the Authority's system of internal control as presented in the AGS (Appendix A). The review will assist the Audit Committee in considering the effectiveness of the Authority's arrangements for the governance of its affairs, including arrangements for management of risks and systems for internal control.

1.2 Recommendation(s):

- 1.2.1 It is recommended that the:
- (a) Audit Committee note the outcome of the review of the Authority's system of internal control;
 - (b) Audit Committee consider the draft AGS and approve that it accompanies the Statement of Accounts for 2018/19; and
 - (c) Audit Committee note the actions proposed in the AGS relating to any governance issues identified and make suggestions about including additional items if considered necessary.

1.3 Forward plan:

- 1.3.1 This report is included within the annual workplan for the Audit Committee.

1.4 Council plan and policy framework:

- 1.4.1 The AGS covers all the service responsibilities as identified within the Council Plan.

1.5 Information:

- 1.5.1 Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 requires audited bodies to conduct a review at least once a year of the effectiveness of its internal controls and produce an AGS. Good governance is fundamental to the proper running of the Authority. It enables an authority to pursue its vision effectively as well as underpinning that vision with control and management of risk. The arrangements in place must be proportionate to the risks and are acknowledged as being the responsibility of each authority in its area of operation. The process of preparing the AGS should add value to the effectiveness of the corporate governance and internal control framework.
- 1.5.2 The AGS has been compiled using a governance framework produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). CIPFA originally published the framework 'Delivering Good Governance in Local Government' in association with SOLACE in 2007. CIPFA and SOLACE subsequently reviewed the framework to ensure that it remains fit for purpose and a revised edition was published in spring 2016. The framework builds on the existing one and details the principles that should underpin the governance of a local authority. The framework is based on seven core principles that feed into the AGS – a summary of these are shown in Section 3 of the AGS together with examples of the evidence supporting the principals in practice within the Authority. The AGS is attached as Appendix A.
- 1.5.3 The Chief Executive, Director of Public Health and each of the Heads of Service have been involved in populating the AGS with the evidence supporting how the principals are met within the Authority. The key documents/functions that have been reviewed as part of the compilation of the AGS together with an overview of the process are outlined in Appendix B. Section 5 of the AGS (Appendix A) outlines the outcome of the review of the effectiveness of internal control and identifies areas that have been highlighted as requiring continuous monitoring to ensure that they do not become significant governance issues in the future.
- 1.5.4 The risk management update, included in the agenda for this meeting, sets out the current corporate risks being managed and monitored, and for the purpose of completeness should be considered alongside this report. This process evidences an important part of the Authority's governance framework.
- 1.5.5 The AGS is a draft based on the information and evidence available as at the date of this meeting. If there are any issues raised by the external auditor during the audit of the 2018/2019 financial statements that require the AGS to be revised prior to approval by Council on 25 July 2019, a revised AGS will be presented to the Audit Committee for its consideration.

1.6 Decision options:

The options available are:

- (a) To accept the recommendations made in section 1.2.1; or
- (b) To reject the recommendations made within this report.

1.7 Reasons for recommended option:

The production of the Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2015.

1.8 Appendices:

Appendix A – Annual Governance Statement 2018/2019
Appendix B – Annual Governance Statement Framework

1.9 Contact officers:

Janice Gillespie – Head of Resources – Tel: 643 5701
David Dunford – (Acting) Senior Business Partner – Tel: 643 7027

1.10 Background information:

The following background papers and reports have been used in the compilation of this report and are available for inspection at the offices of the author:

- (a) Annual Governance Statement 2018/19
- (b) 'Delivering Good Governance in Local Government' 2016 Edition (CIPFA)
- (c) 'Delivering Good Governance in Local Government: Guidance Notes' 2016 Edition (CIPFA)
- (d) 'The Role of the Chief Finance Officer' 2016 Edition (CIPFA)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

There are no financial implications as a result of the recommendations within this report.

2.2 Legal

The Annual Governance Statement is produced annually in accordance with regulation 6(1)(a) of the Accounts and Audit Regulations 2015.

2.3 Consultation / community engagement

The Chief Executive, Director of Public Health and all Heads of Service have been consulted. There will be a series of Member briefings during the summer on the Financial Statements before full Council approve the Annual Governance Statement on 25 July 2019.

2.4 Human rights

There are no Human Rights implications as a result of the recommendations in this report.

2.5 Equalities and diversity

There are no Equalities and Diversity implications as a result of the recommendations in this report.

2.6 Risk management

The annual review of the system of internal control will cover all controls, including the arrangements in place for Risk Management within the Authority.

2.7 Crime and disorder

There are no crime and disorder implications as a result of the recommendations in this report.

2.8 Environment and sustainability

There are no environment and sustainability implications as a result of the recommendations in this report.



North Tyneside Council

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Annual Governance Statement

2018/19

29 May 2019

Contents

Section

1. Scope of responsibility
2. The purpose of the governance framework
3. The governance framework
4. Review of effectiveness
5. Overall assessment of governance arrangements in place
6. Signatories

2018/19 Annual Governance Statement

1.0 Scope of Responsibility

North Tyneside Council is responsible for ensuring that its business is conducted in accordance with the law and proper accounting standards. It must make sure that public money is safeguarded and properly accounted for, and is used economically, efficiently and effectively. North Tyneside Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, North Tyneside Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

North Tyneside Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework “Delivering Good Governance in Local Government”. A copy of the Code can be found on our website or can be obtained from Legal Services. This Statement explains how North Tyneside Council has complied with the code and also meets the requirements of regulation 6(1)(a) of the Accounts and Audit Regulations 2015 in relation to the publication the Annual Governance Statement (AGS).

2.0 The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the Authority is directed and controlled. It sets out the activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of North Tyneside Council’s policies, aims and objectives. By evaluating the likelihood of those risks being realised and the impact should they be realised, it allows the Authority to manage them efficiently, effectively and economically.

An Annual Report is produced by the Chief Internal Auditor, part of which provides an opinion from Internal Audit on the overall adequacy and effectiveness of the Authority’s control environment. This Statement includes any control issues that the Chief Internal Auditor has deemed significant and should be included within the AGS. These are identified where appropriate, and referenced to the Annual Audit Report.

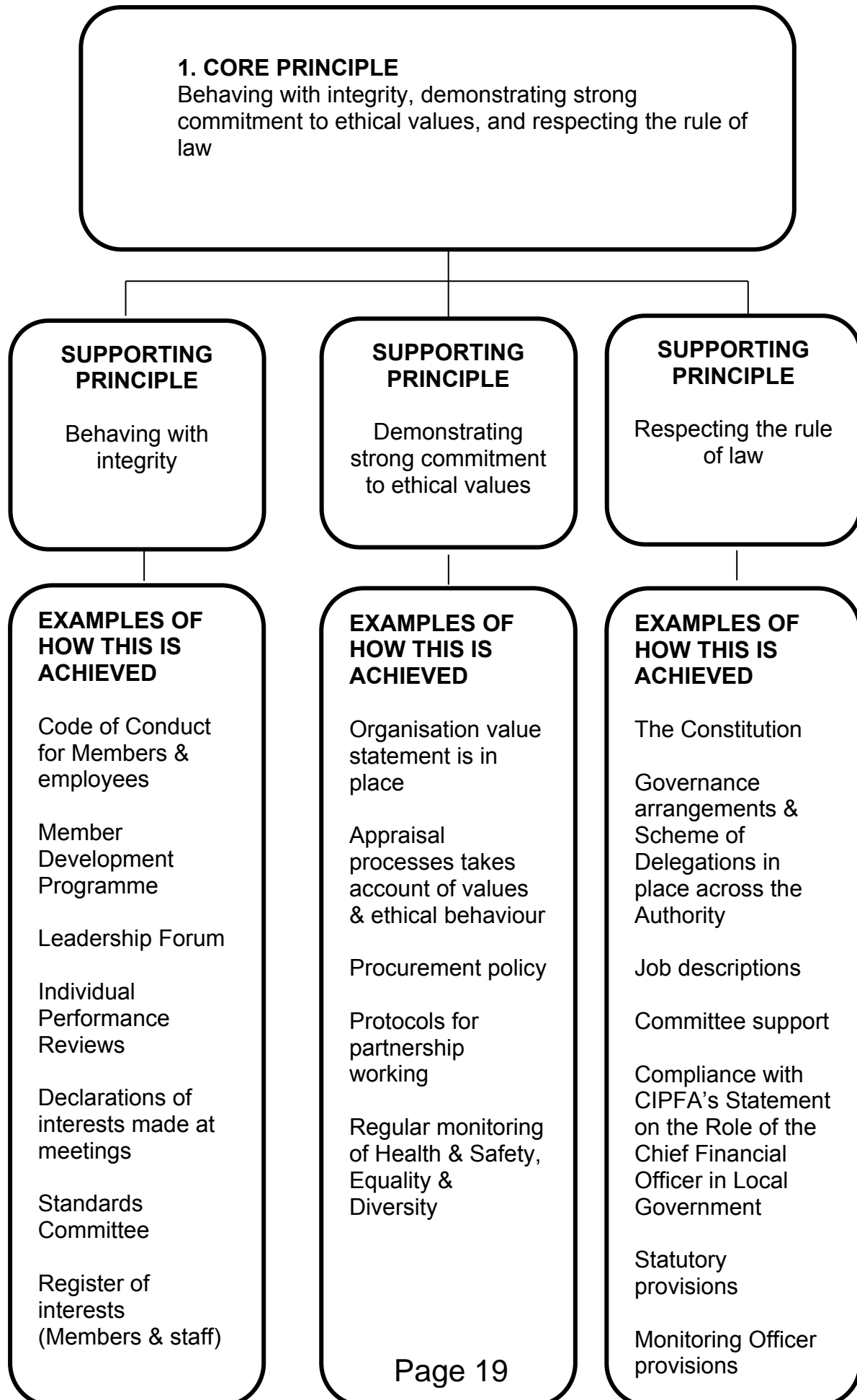
The governance framework has been in place at North Tyneside Council for the year ended 31 March 2019 and up to the date of approval of the Annual Financial Report.

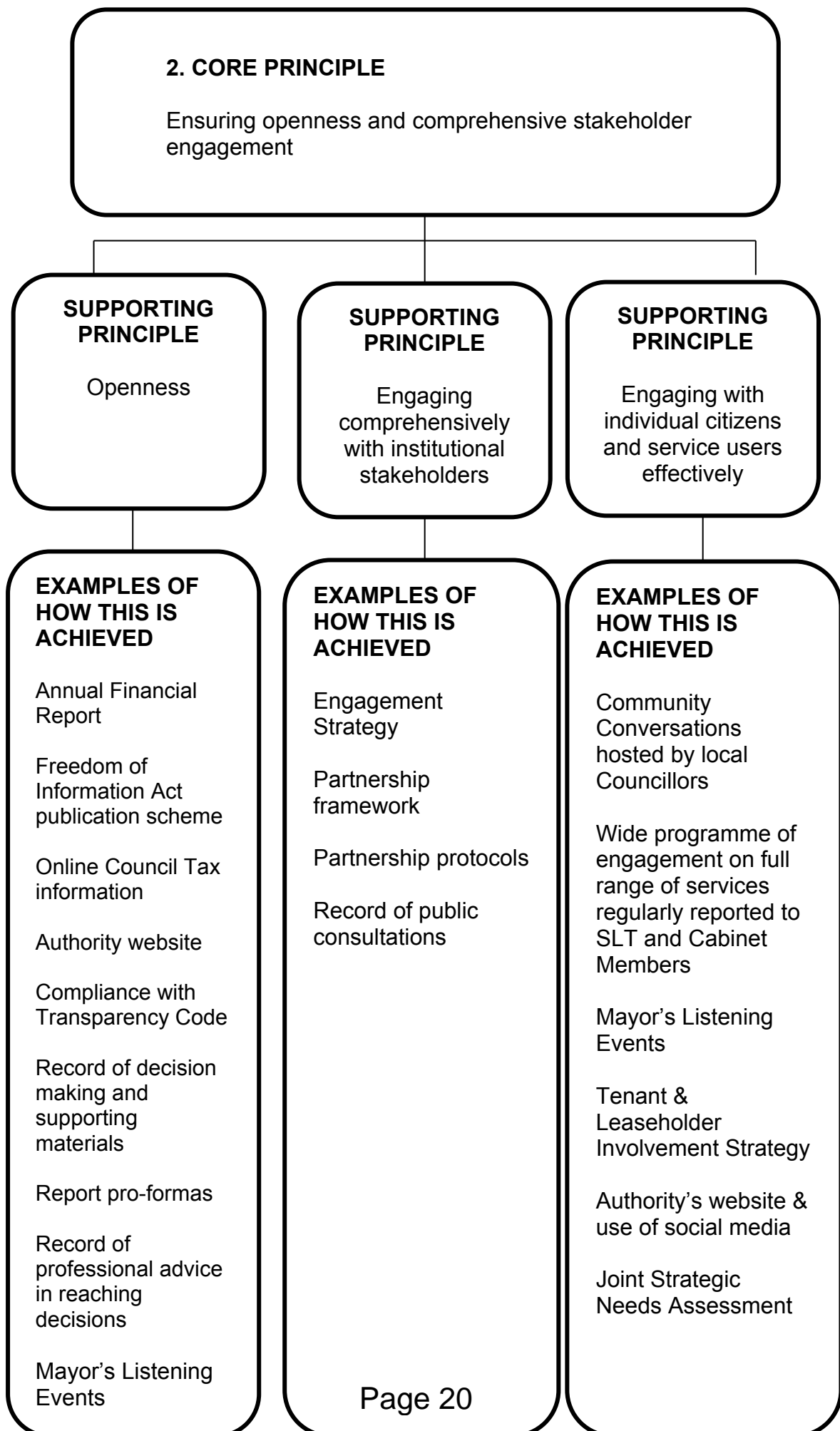
3.0 The governance framework

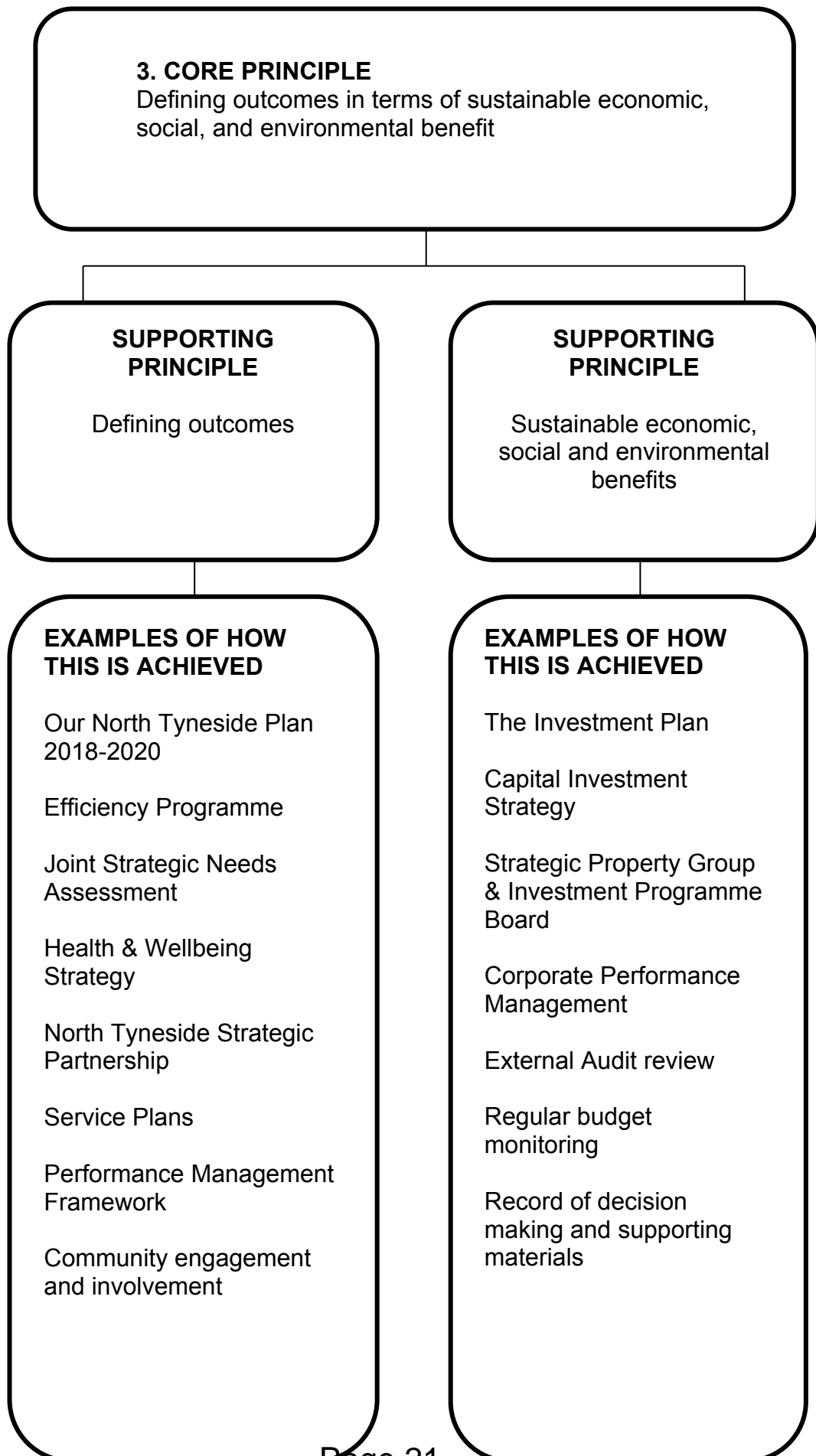
The governance framework is based on the core principles of corporate governance included in the CIPFA/SOLACE Framework. These principles are underpinned by key features that need to be in place to allow an authority to demonstrate that they comply with these principles. The diagram below sets out the seven fundamental principles:

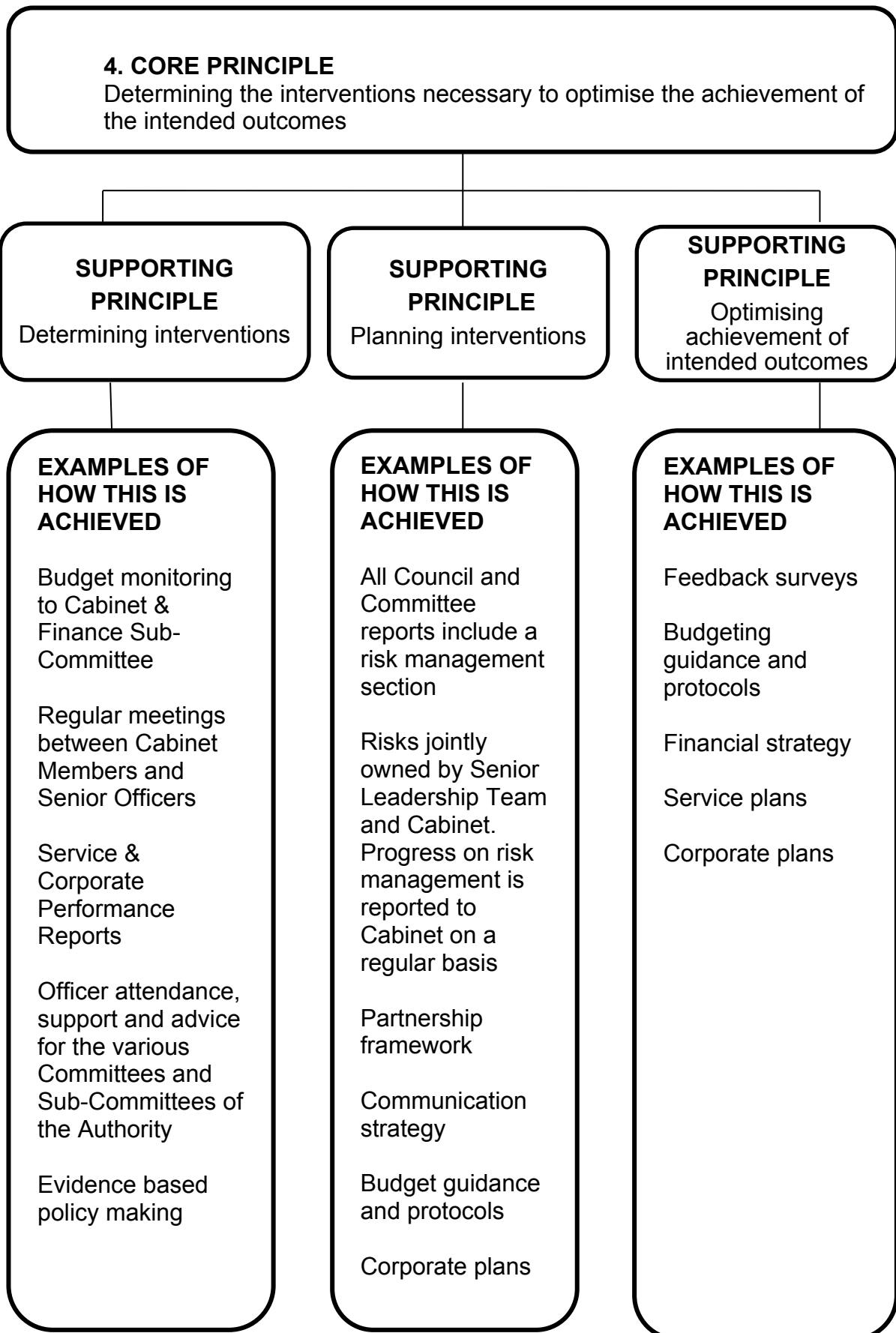


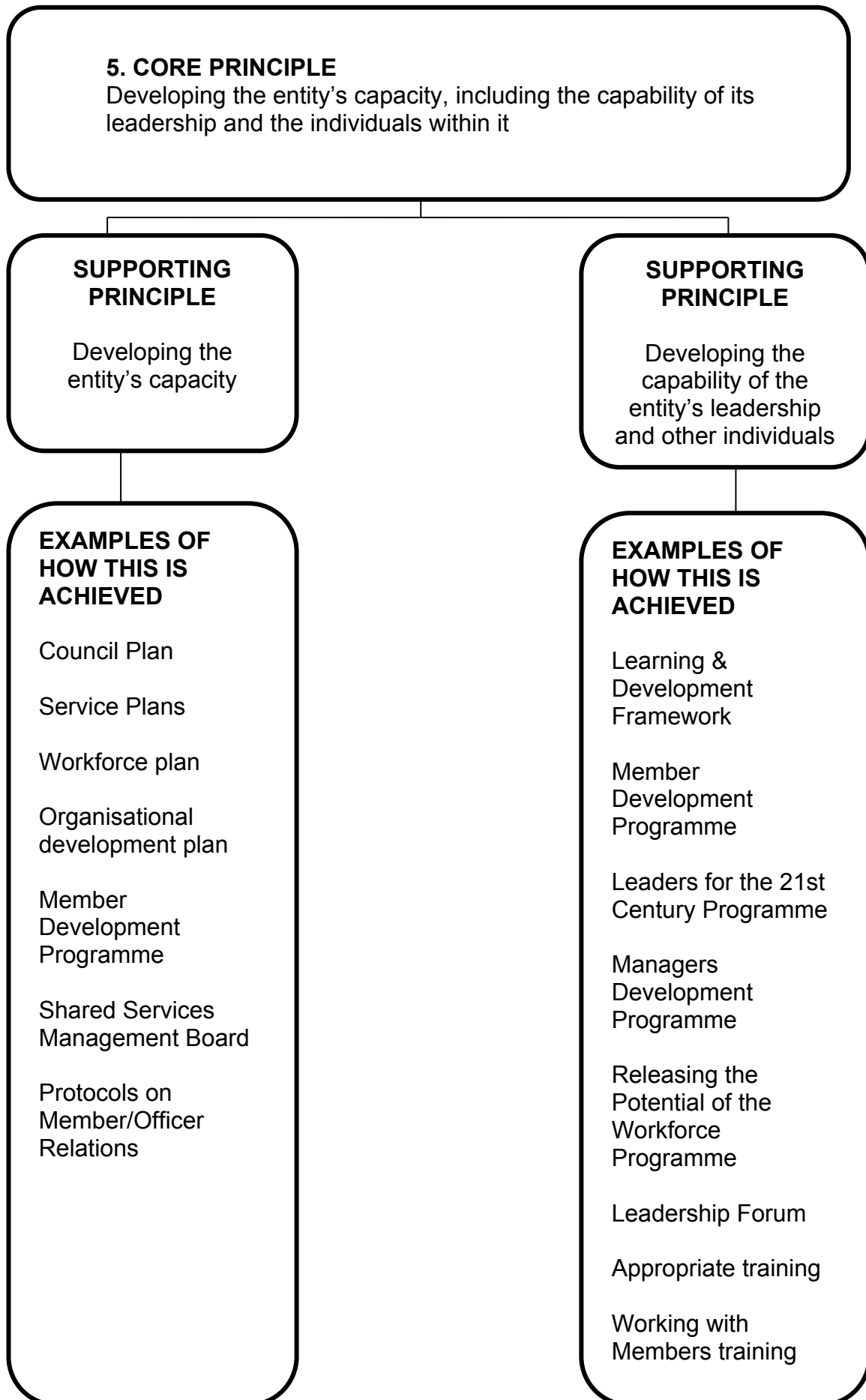
The key features that underpin each of the core principles, together with examples of how the Authority achieves them are outlined in the following diagrams.

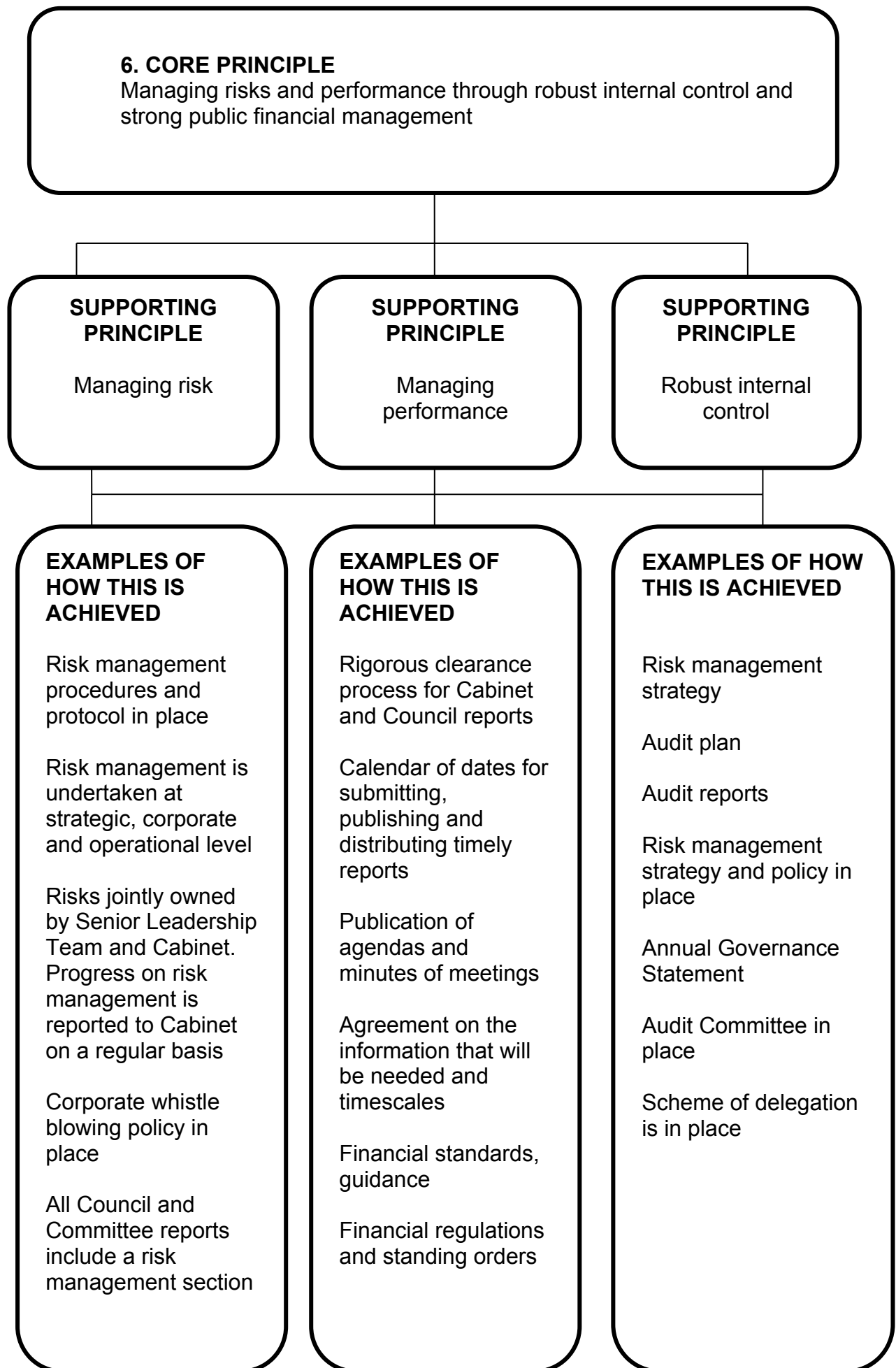


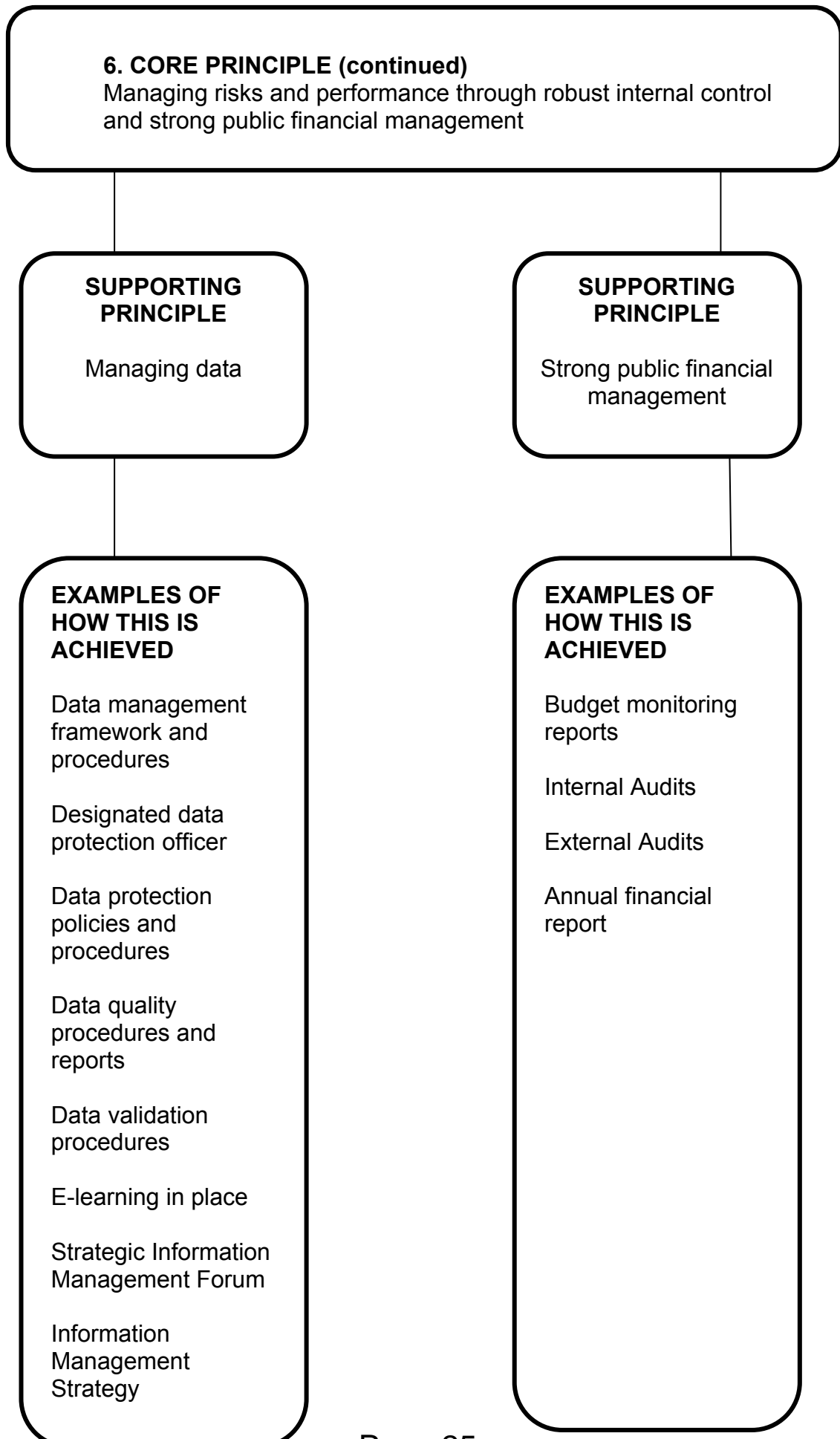


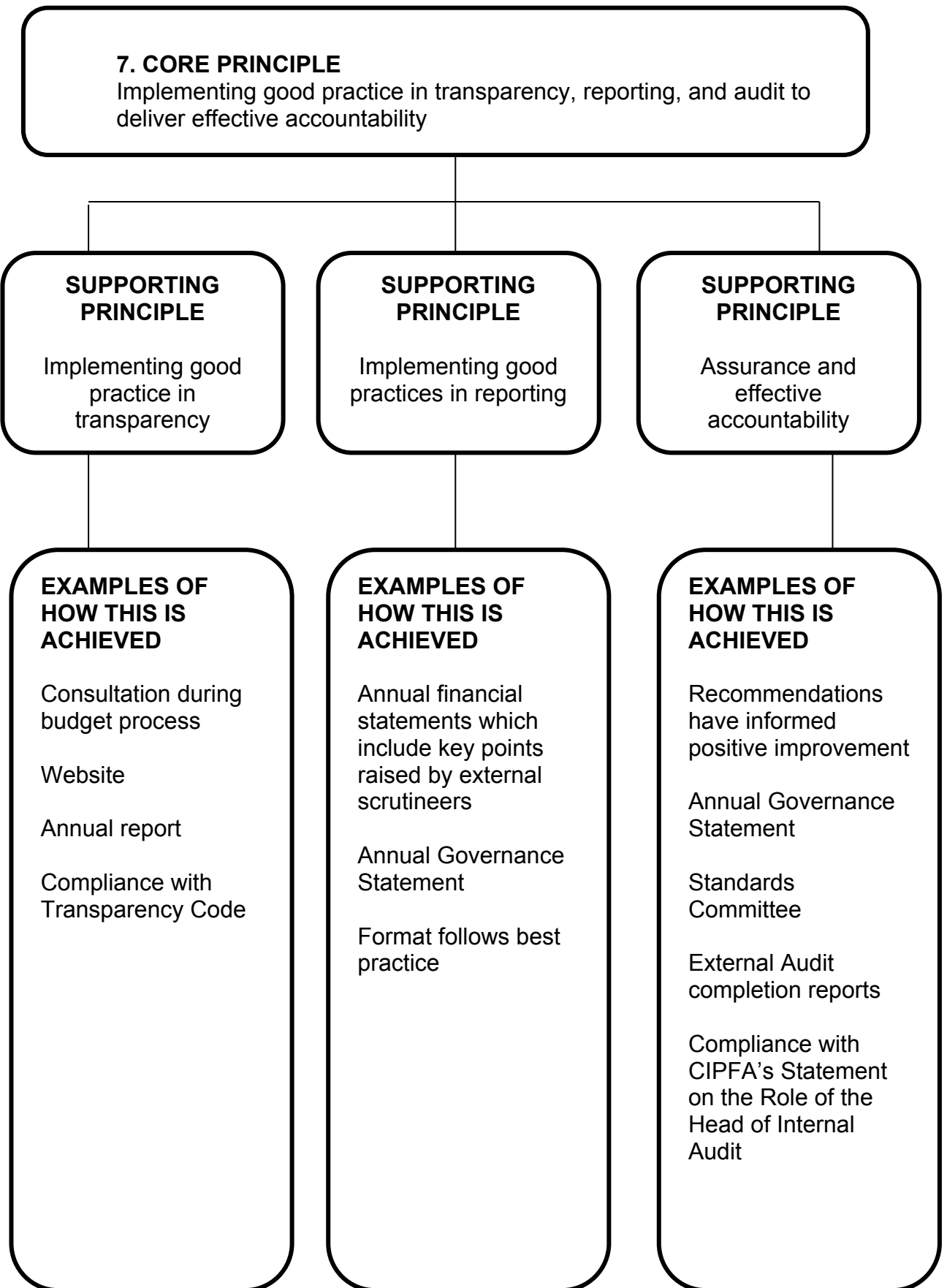












4.0 Review of effectiveness

North Tyneside Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Chief Executive, Director of Public Health and Heads of Service within the Authority who have responsibility for the development and maintenance of the governance environment.

Listed below are the processes that are applied in maintaining and reviewing the effectiveness of the governance framework on a continuing basis:

- **The Full Council** – The Full Council is responsible, within the scope of its responsibilities under law, for ensuring that the Authority’s business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, effectively and efficiently. All reports to Full Council document the financial, legal and operational implications of the decisions to be made. Reports are reviewed to ensure there are no governance issues identified or, where such an issue is identified, to ensure that it is appropriately addressed. The Elected Mayor, the Chief Executive and Chair of Council have signed this document;
- **The Council’s Executive** – The Council’s Executive comprising the Elected Mayor and Cabinet is responsible, within the scope of its responsibilities under the law, for ensuring that the Authority’s business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, effectively and efficiently. All reports to Cabinet document the financial, legal and operational implications of the decisions to be made. Reports are reviewed to ensure there are no governance issues identified or, where such an issue is identified, to ensure that it is appropriately addressed. The findings of the AGS are reported to, and discussed with, the Elected Mayor;
- **Head of Paid Service** – The Head of Paid Service is responsible for the corporate and overall strategic management of the Authority’s staff in accordance with Section 4 of the Local Government and Housing Act 1989;
- **Chief Finance Officer** – The Chief Finance Officer (CFO) has statutory duties in relation to the financial administration and stewardship of the Authority arising from Section 151 of the Local Government Act 1972. The CFO has completed a governance statement which outlines the arrangements that are required to ensure that the CFO duties can be carried out effectively. The statement is based on “The Role of the Chief Finance Officer” published by CIPFA;
- **Monitoring Officer** – The Monitoring Officer has responsibility for promoting and maintaining high standards of conduct and reporting any actual or potential breaches of the law or maladministration to the Full Council and/or to the Cabinet as set out in Section 5(2) of the Local Government and Housing Act 1989;
- **The Senior Leadership Team** - The Senior Leadership Team acts as the organisation’s overall ‘management board’, providing strategic direction to enable the business of the Authority to be undertaken. The Team provides

ultimate assurance to the Cabinet and non-executive Members in relation to the governance arrangements in place. The AGS is reviewed by the Senior Leadership Team as part of the production of the Statement;

- **The Audit Committee** - The Audit Committee improves corporate governance by reviewing the stewardship of the Authority's resources. The Audit Committee enhances the profile of audit throughout the Authority and enables it to be strong and effective. The findings of the annual governance review are reported to the Audit Committee. The terms of reference of the Audit Committee state that they receive the information necessary to undertake an annual review of the effectiveness of the Authority's system of internal control, will agree the methodology for the preparation of the AGS and will monitor the action plan prepared to address the issues identified in the AGS;
- **Overview, Scrutiny & Policy Development** - The Overview, Scrutiny & Policy Development Committee is about improving services for the people of North Tyneside by influencing decision makers. This is achieved by: acting as a critical friend to the Elected Mayor and Cabinet, investigating issues of interest and concern to communities within North Tyneside, involving communities in its work and making recommendations to decision makers on how services can be improved. There are currently seven Overview, Scrutiny & Policy Development sub-committees which cover all Authority services:
 - Finance;
 - Adult Social Care, Health and Well Being;
 - Children, Education, and Skills;
 - Environment;
 - Economic Prosperity;
 - Housing; and
 - Culture & Leisure
- **Standards Committee** - The Standards Committee is responsible for the promotion and maintenance of high ethical standards within the Authority, helping to secure adherence to the Members' Code of Conduct, monitoring the operation of the Code within North Tyneside, the provision of training to members in relation to the Code and to requirements for disclosure of interests. The Committee also promotes and reviews the Whistleblowing Policy for Members and conducts hearings following investigation and determines complaints made against Councillors in respect of alleged breaches of the Code of Conduct (including following requests for review);
- **Health & Wellbeing Board** – The Health & Wellbeing Board is in place to ensure that there is an integrated approach to the provision of health and social care services in the area. The Board is responsible for: encouraging the commissioners of health and social care services to work in an integrated manner to improve the health and wellbeing of people in the area, including the making of joint arrangements; preparing a Joint Strategic Needs Assessment, Joint Health and Wellbeing Strategy and Pharmaceutical Needs Assessment; and encouraging the commissioners of health-related services, such as housing, to work closely with the Board and the commissioners of health and social care services. The Authority's Director of Public Health and statutory Director of Adult Social Services and Children's Services form part of the Adult Social Care, Health & Wellbeing Board;

- **Corporate Assurance Group** – The Corporate Assurance Group consists of the Chief Executive, statutory Director of Adult Social Services and Children’s Services and other senior officers involved in Safeguarding. The Group not only provides adequate and regular assurance for the statutory functions for Adult and Children’s Services, but enables a strategic discussion of trends, pressures, special measures for specific establishments/service areas or client groups. It also enables the performance, engagement and resource commitment of partners to be kept under review, as well as providing a regular link with the Safeguarding Board Chairs. A primary function of the Group is to provide the evidence by which the Chief Executive, Elected Mayor and Cabinet Members fulfil their statutory responsibilities to adults and children within the borough – in both a retrospective scrutiny of performance and a forward view of pressures and challenges facing the services – which will inform corporate decisions on resources and capacity;
- **Internal Audit** – Internal Audit plays a key role in the assessment of the control environment. Although part of the Authority’s overall control framework, Internal Audit is not a substitute for effective internal control. The Chief Internal Auditor provides an annual summary of the results and conclusions of the year’s work, this report includes an opinion on areas included within the AGS;
- **Risk Management Groups** – Risk Management is undertaken at operational, strategic and corporate level and is also a main element of managing our key projects and partnerships. The Authority’s Senior Leadership Team takes an active part in ensuring that strategic risks are identified and managed taking into consideration the Authority’s priorities. Those strategic risks that are exceptional in nature are managed at corporate level and are jointly owned by the relevant member of the Senior Leadership Team and Cabinet Member. All risks are reviewed on a regular basis by the relevant risk management group and governing body to ensure that they are being managed effectively, with progress reported to Senior Management, relevant Board, Senior Leadership Team, Cabinet, and the Audit Committee;
- **External Audit** - Officers meet regularly with the External Audit team, who also attend key Council meetings. Action plans are formulated to address any formal recommendations raised by external inspectors. The views of our external auditors are expressed through the Annual Audit Letter and the Audit Completion Report; and
- **Partnerships** - a monthly Operational Partnership Board (OPB) is attended by key officers within the Council and the Partner. The Cabinet Member for Finance and Resources (for ENGIE) and the Cabinet Members for Housing, Environment & Transport and Community Safety & Engagement (for Capita) also attend the relevant meeting. The OPB is the main interface between North Tyneside Council and ENGIE/Capita. It provides a forum for the day-to-day management of the Partnership and is responsible for ensuring that performance targets are met, that the payment and performance mechanism operates correctly, that a high-performance relationship and culture is developed and that problems or issues and contract variations are resolved. The OPB reviews performance and budget reports from the relevant Partner and any risks or issues escalated to it by ENGIE/Capita or the Commercial Services Team. The OPB escalates risks and issues to the Strategic

Partnership Board, which in turn escalates risks and issues to Cabinet as appropriate.

All of the above work has been used in compiling this Statement and arriving at an assessment of the internal control arrangements in place within the Authority.

5.0 Overall assessment of Governance Arrangements in place

Any system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period and that significant risks impacting on the achievement of the Authority’s objectives have been mitigated.

The annual report produced by the Chief Internal Auditor has been reviewed and there are no significant governance issues that were identified. See “Annual Governance Statement 2018/19” section of the Internal Audit Service report “2018/19 Opinion on the Framework of Governance, Risk Management and Control”.

As a result of reviewing the evidence outlined, the Senior Leadership Team has taken the view that as a whole, the governance arrangements in operation during 2018/19 within the Authority were adequate.

5.1 Outlook

As a result of reviewing the evidence outlined in sections 3 and 4, together with the Authority’s assurance statement, some issues were identified that will need to be monitored during 2019/20. These issues relate to the changing nature of the Authority and local government as a whole. If the Authority failed to address these challenges properly it may result in future governance issues. Outlined below is a summary of these key challenges:

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
<p>Housing Revenue Account (HRA) – there is a risk that the Authority will be unable to protect its housing asset and services to tenants as a result of reduced income to the HRA.</p>	<p>Government policy on Welfare Reform has resulted in a number of direct challenges to rent collection, for example the Spare Room Subsidy and the Benefit Cap.</p> <p>Further Welfare Reform changes, including the roll out of Universal Credit that commenced in May 2018.</p> <p>This is the final year of a four-year 1% p.a. rent reduction brought around by the Welfare Reform and Work Act 2016.</p>	<ul style="list-style-type: none"> • Any impact from changes in Government legislation is reflected in the HRA plan and approved by Cabinet as part of the annual review of the HRA. • Revised 30-year Capital Investment Plan is in place. • The Authority has representation on the MHCLG (Ministry for Housing, Communities & Local Government) and the CIPFA HRA working groups. Specific issues can be raised

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
		<p>through these forums and the Authority can also comment and influence changes on HRA regulations.</p> <ul style="list-style-type: none"> • The Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income. • Self-service/agile working, through the implementation of self service and agile working overall costs should be reduced. • The Government announced during 2018 that it will be removing restrictions on the HRA borrowing cap, and that authorities will purely operate under the same rules that apply to the General Fund in accordance with the Prudential Code i.e. affordability being the key issue. • The insourcing of the repairs & maintenance construction service brings with it financial benefits creating greater financial flexibility to balance the HRA. • A watching brief will be kept on the implications of any further Government proposed changes as they arise, and appropriate representations will be made to Government.
Implementation of Universal Credit Full	The impact of the Universal Credit (UC) roll out over 2019/20. The full service was implemented	<ul style="list-style-type: none"> • Partnership working to support the claimants of UC with Community

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
<p>Service – there is a risk on resident's finances both in them receiving the payment and their ability to manage their finances on a monthly basis. Risks also exist around the HRA if rent arrears increase as a result.</p>	<p>on 2 May 2018 by Job Centres in North Tyneside. This brings families with children into scope.</p> <p>The potential impact on resident's finances and the delay in receiving initial payment is a concern, although Government have provided some additional support measures with 2 weeks additional Housing Benefit and promotion of advanced payments.</p> <p>Resident's ability to make and maintain claims online and their ability to manage finances on a monthly basis is also a challenge.</p> <p>The impact on the HRA, as claimants receive their Housing element of UC directly and have to make payment to the authority (currently Housing Benefit paid direct to Local Authority) is a challenge to maintain rent collection levels.</p>	<p>and Voluntary Sector and Job Centre Plus.</p> <ul style="list-style-type: none"> • Referral mechanisms established to support residents with ICT Skills to claim and update UC claims as well as managing budgets. • Promotion of Direct Debit. Also use of alternative payment arrangements where appropriate to support vulnerable residents. • Expanding the UC Support Team to ensure that arrears balances are closely monitored and controlled. • Introduced Employability Officers x3 to support claimants back into employment. • Introduced analytical software to target support to the most vulnerable UC claimants. • An officer is in place to manage the electronic real-time notifications that are received from the Department for Work and Pensions in relation to new claims and payments.
<p>Efficiency Savings Programme There is a risk that if the programme not successfully implemented the Authority may be unable to deliver improved services and meet the</p>	<p>Reductions in central government funding combined with increasing demand levels for the Authority's services has required the Authority to develop new ways of working. The Authority is aiming to deliver high quality services with fewer resources at its disposal.</p> <p>Any required savings are</p>	<ul style="list-style-type: none"> • Governance framework – there are monthly updates via Senior Leadership Team (SLT) and the Leadership Forum. In addition, as part of the Financial Management Function quarterly Budget & Performance Sessions are held with Cabinet Members. This ensures

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
<p>increased demand on Council services within reducing resources.</p> <p>There is a risk that budget monitoring does not fully align with the efficiency programme.</p>	<p>therefore required to fit with the Efficiency Statement to ensure the council is still in a position to deliver the quality of services its residents expect.</p> <p>To enable the objectives of the Efficiency Statement to be met it is important that the current monitoring processes that are in place will enable robust financial and service challenges to continue throughout the year.</p>	<p>that there is visibility and accountability.</p> <ul style="list-style-type: none"> • Regular updates are reported to Lead Member Briefings. This informs Cabinet Members of progress and of any issues. • The Efficiency Statement addresses the financial challenge whilst enabling the Authority to deliver Our North Tyneside Plan priorities. A number of business cases have been put in place to support the delivery of the Efficiency Statement and associated reduction of costs. • A refreshed Joint Strategic Needs Assessment (JSNA) is in place which provides a new approach to needs assessment to provide an improved foundation for the Efficiency Statement. • The Risk Register highlights and reports key risks attached to the strategic aims of the Efficiency Savings Programme. The Efficiency Savings Programme Board receive this report enabling informed decisions to be made.
<p>Impact of the development of the Integrated Care System (ICS) across North East and North Cumbria and the Integrated Care</p>	<p>The purpose of the ICS and ICPs in the NHS is to ensure that health and care services are based upon the needs of local populations in order to support the successful implementation of the NHS 5 Year Forward View (5YFV) and the NHS Long Term Plan. The ICS and ICPs are</p>	<ul style="list-style-type: none"> • Following previous controls identified, including the letter from North Tyneside Council to NHS England and monitoring by the Head of Health, Education, Care and Safeguarding and the Chair of the

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
<p>Partnerships ICPs (which have replaced the former Sustainability and Transformation Plans) –there are concerns about the extent to which the Authority has been a true partner in its development. The concern centres on engagement and involvement of local authorities and understanding the financial implications of the plans upon the ability of the Authority to deliver services to residents, such as, adult social care, children’s services and public health.</p>	<p>intended to bring together key partners across Clinical Commissioning Groups (CCGs), Foundation Trusts, local authorities and other health and care service providers to improve health outcomes and to better manage operational challenges in the NHS to achieve sustainability.</p> <p>The ICS has identified a number of priority areas of work including prevention, optimising health services, digital transformation, workforce transformation and mental health.</p>	<p>Health and Wellbeing Board, a Health Scrutiny Committee has been established jointly across local authorities.</p> <ul style="list-style-type: none"> • The Chair of the Health and Wellbeing Board and senior council officers have received updates and a number of presentations from chief officers within the NHS on the progress of the ICS, ICP and the Long-Term Plan and the implications at the meetings of the North Tyneside Health and Wellbeing Board. • The Head of Health, Education, Safeguarding and Care and the Director of Public Health are involved in the ICS work streams relating to prevention, mental health and child health. • A watching brief will be kept on the implications of the Governments’ Green Paper on Care and Support for Older People and the Green Paper on Prevention. Once they are published considerations will need to be made to any changes coming as a result.
<p>Business Rates - There are a number of risks with new Government proposals to move to a 75% or 100% retention policy.</p>	<p>There are on-going discussions and moves by Central Government to implement 100% Business Rate Retention for Local Authorities. This initiative has been delayed in this parliament and latest position is a consideration of 75% retention by local authorities by 2020/2021.</p> <p>Increased retention will</p>	<ul style="list-style-type: none"> • The Authority, along with it’s North of Tyne partners has entered a 75% retention pool for 2019/20. This will act as a trial for the impact a switch in national policy might have on North Tyneside. • A Task & Finish Group, Business Rates

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
	<p>potentially give local authorities greater ability to plan for the long term, more financial independence and an increased incentive to generate growth as a greater % of business rates will be retained.</p> <p>However, a lack of business growth or the shutting of a business will have a negative impact on the Authority's revenues.</p> <p>The Authority will also have to bear an increased % of business rates appeals, this was previously 50%.</p> <p>The current business rates system has a safety net in place for those local authorities that see a reduction in business rate income by more than 7.5%. It is anticipated that this will stay in place, but this hasn't been confirmed.</p>	<p>Retention, has been set-up to influence central government direction on the proposed Business Rates Retention system. This has involved the establishment by the Local Government Association (LGA) and MHCLG of an officer-level steering group and 3 working groups. The working groups meet regularly and cover service responsibilities, needs & redistribution, system design, accounting & accountability and business interests.</p> <ul style="list-style-type: none"> • Presentations have been received from MHCLG both to the region and jointly to the Local Government Association. • The Authority considers and responds to consultations issued on the proposed changes to business rates. • Weekly monitoring of the Valuation Office appeals data is carried out to gain an understanding of the Authority's position. • MHCLG continue to consult on business rate retention as it links in with Governments Fair Funding Review and devolution of further responsibilities. <p>Proposals to change risk on appeals, Central Government bearing cost, with top slice to each authority's funding.</p> <ul style="list-style-type: none"> • Valuation Office Agency

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
		<p>have introduced new appeals process from 1 April 2017 called check, challenge, appeal which introduces additional processes to reduce the number of appeals made. Large reduction in number of appeals has been seen in first year of scheme. The Authority has made prudent judgements on potential impact of appeals on the collection fund accounts and monitor this on a monthly basis.</p>
<p>Information Governance – there is a risk in relation to information governance that unless there are robust policies and systems in place and implemented there is a possibility that sensitive data may be lost. If the Authority fails to have robust policies in place there is a risk that the Data Protection Act could be breached leading to fines and compensation claims.</p>	<p>Some information held by the Authority is extremely sensitive in nature which requires robust policies and systems to be in place to ensure that it is as secure as possible, and that staff are fully aware of the procedures that they need to follow when dealing with such information.</p> <p>From May 2018 the General Data Protection Regulation (GDPR) came into force. The GDPR sets out a number of new requirements for organisations. The new regulation places greater emphasis on accountability, for example informing residents in more detail about how the Authority will handle their data, shorter timescales for dealing with subject access requests and breaches, increased fines for non-compliance, data protection impact assessment (DPIA) must be carried out prior to commencing new processing activities, considering data privacy and protection at the start of a project (also known as Privacy by Design).</p>	<ul style="list-style-type: none"> • Compulsory e-learning in respect of information sharing and information governance awareness training. It is mandatory for all staff handling information to undertake e-learning. • Strategic Information Management Forum. This is an assurance group which consists of Heads of Service and Senior Managers. Their role is to help to ensure that the Authority's information governance, IT systems and processes are fit for purpose. The Group enables Senior Managers to ensure that consistency is applied to the approach to information governance and sign off of referrals to the Information Commissioner's Office. • Information Management Strategy, this sets out how the Authority will manage its

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
		<p>information going forward.</p> <ul style="list-style-type: none"> • Information governance standards for the sharing of information with partners. Data sharing was included in the contractual arrangements with both the Business and Technical Partners. An additional data sharing agreement has been produced for the business partner to reflect ICT services. It sets out procedures that staff need to follow in order to obtain access to information systems. A Data sharing Agreement is also in place for the Trading companies. • Strategic Information Governance Officer – providing a corporate approach working with day to day managers of the information governance processes and procedures, ensuring a training plan is in place and implemented. • The Authority has appointed a new Senior Information Risk Owner at SLT level, which will oversee Information Governance operations. • Work is continuing to embed data protection legislation across the Authority. Privacy Notices have been produced, the procedure for data protection requests has been reviewed and implemented and the

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
		<p>Information Governance policies have been updated. Current data sharing and data processing agreements have been reviewed and updated and work continues on the Archive to reduce the number of documents being stored.</p> <ul style="list-style-type: none"> • Implementation of ICT Tolling which will include SharePoint will introduce a Records Management System which will include robust document retention and disposal systems.
<p>Partnerships – There is a risk that partner organisations governance arrangements and service plans do not align with the Authority's.</p>	<p>The Authority needs to continue to manage and review governance arrangements that are in place in respect of all partnerships to ensure required services are continued to be delivered against agreed service plans whilst demonstrating value for money.</p> <p>In addition, the Authority needs to ensure that boundaries and responsibilities remain clear and are robustly managed, recognising that operations and staffing in both partner organisations and the Authority change over time.</p>	<ul style="list-style-type: none"> • The Governance structure that is in place ensures that the governance to manage partnerships is in place, e.g. Strategic Partnering Boards, Operational Partnering Boards, Senior Client Groups and a Commercial Group. • The performance payment mechanism ensures that the correct payments are made in relation to the partners. • Alignment of the Efficiency Statement with ENGIE strategic plans will ensure all parties are aware of how the business partnership is working towards developing the Authority's priorities and ENGIE business plan. • ENGIE and Capita continue to work with the Authority to deliver the 'Our North Tyneside Plan' along with Efficiency Statement

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
		<p>objectives. The aim is to ensure that partnership delivery plans are in line with policy objectives. This is reflected in their annual service plans.</p> <ul style="list-style-type: none"> • The Capita Deed of Variation has now been agreed and implemented. • The Schedule 9 Benchmarking exercise for the Capita contract as completed in year and reported through OPB and SPB. Development and monitoring of the Annual Service Plan continues and performance against these plans are reported through OPB and SPB. • A Schedule 9 Benchmarking Best Value Review is scheduled for year 8 of the Engie contract (2020) and work will be on-going during 2019 to prepare for this review. A review of Good value is required to enable extension of the Contract to a 15-year term.
<p>Exit from the European Union – there is a risk that the Authority may be placed at a disadvantage following the decision to leave the European Union (EU) in both financial and economic growth terms. - there is an</p>	<p>The decision to leave the EU has resulted in a number of uncertainties including whether Central Government will fill the gap left by European Funding on a like for like basis.</p> <p>There is also the potential impact on businesses within North Tyneside which will vary depending on their reliance on Europe as a market and their sensitivity to fluctuations in monetary value. The full extent of</p>	<ul style="list-style-type: none"> • The potential impact from leaving the EU has been included in the Authority’s Financial Strategy. This will help to ensure that potential areas of impact following EU exit will be highlighted and included (where relevant) in budget planning. • Announced at Conservative Party Conference that funding

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
<p>opportunity to work closely with other local authorities, NELEP and the North of Tyne Combined Authority within the region to exploit new areas of growth and financial streams.</p>	<p>the impact will not be clear until the precise trade terms are known which will apply once the UK formally leaves the EU.</p> <p>Opportunities will also arise covering:</p> <p>An opportunity for partnership between businesses and the Authority to work together more effectively to stimulate and support economic growth opportunities;</p> <p>An opportunity for a comprehensive approach to establish the River Tyne as a hub for offshore and renewable energy investment; and</p> <p>There is an opportunity for local authorities to work more collaboratively with wider business partners through the Combined Authority and the North East Local Enterprise Partnership (NELEP).</p>	<p>will be extended until Britain officially leaves the EU. If this funding is honoured, it will offer a degree of certainty until we leave the EU.</p> <ul style="list-style-type: none"> • Further announcement from Government in July 2018 that they would underwrite EU funding even in a 'no deal' scenario for funds approved prior to 2020. This will enable the Authority to bid for an extension to the Business Factory start-up and business growth support until December 2021. • Funding has been made available from Central Government to help deal with any adverse impacts from Brexit. This will alleviate some of the financial and resource pressures the Authority may face when managing the impacts from Brexit. • Existing regeneration schemes are planned against known funding opportunities. This minimises the impact on schemes if funding opportunities are withdrawn. • Keep a watching brief, this will ensure that any changes whether to funding or legislation will be identified and acted upon. • The Authority is a member of various regional groups. This will help the Authority to keep up-to-date on

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
		<p>progress and have the opportunity to exert influence via these groups, for example the Local Government Association.</p> <ul style="list-style-type: none"> • Effective high-level engagement with key businesses. Appropriate high-level relationships will enable us to monitor emerging impact of Brexit on our key businesses. • Explore alternative funding opportunities. This will enable the Authority where possible to secure future funding that is not reliant on the EU. • The Authority has established the Brexit Working Group. The group will oversee the management of Brexit across the Authority. It takes into account information and guidance received from Central Government and regional groups. The group has identified and is managing risks attached to Brexit and it assesses the resilience of the Authority to ensure we are prepared to deal with the impact.
<p>Devolution – There is a risk that the Authority may not be able to maximise the opportunities presented by securing a devolution deal for North of the Tyne (NOT).</p>	<p>The North of Tyne authorities have established a North of Tyne Mayoral Combined Authority following a Devolution deal from Central Government. This required the previous arrangements with the North East Combined Authority (NECA) to change. The Authority will need to be mindful of any on-going governance issues the new</p>	<ul style="list-style-type: none"> • The North of Tyne Combined Authority is now in existence, with its first elected Mayor in office. • The Elected Mayor and Deputy Mayor are members of the North of Tyne Cabinet. • The North Tyneside Working Group,

Potential Governance Issue	Factors Driving the Governance Issue	Controls Identified in May 2019 Audit Committee Report
	Combined Authority may bring, specifically around their impact on North Tyneside Council.	including Authority staff and elected members, continues to meet to ensure information is shared and all parties are involved to maximise the potential benefits for North Tyneside. Chief Officers within North Tyneside Council are currently occupying critical roles in the new Combined Authority.

6.0 Signatures

We, the undersigned, propose to ensure the areas identified above are monitored during the coming year in order that the governance arrangements within the Authority remain effective. These will be reviewed throughout the year.

Signed:

.....

Elected Mayor

Chief Executive

Date:

Date:

.....

Chair of Council

Date:

I confirm that the Audit Committee (at its meeting 29 May 2019) was satisfied on the basis of the information available to it, that the Annual Governance Statement 2018/19, which is required, under the Regulations governing the audit of local government accounts, has been prepared and approved after due and careful enquiry.

.....

Chair of the Audit Committee

Date:.....

Annual Governance Statement (AGS) Framework

Evidence is gathered from a variety of sources including:

The Governance Framework – examination of key documents/functions

Council and Service Policies

Business Plans and Risk Registers



Supporting evidence and assurances are reviewed – this comes from:

Internal Audit – periodic and annual reports

Financial Management – financial plans, statutory returns, external audit

Members Assurance – scrutiny functions, Standards Committee

Risk Management – risk management strategy

Assurance Statement – completed annually

Chief Finance Officer's Statement – completed annually

Council and Cabinet Meetings



Draft AGS compiled together with action plan to address any identified governance issues



Draft AGS and action plan reviewed by Senior Leadership Team and Chief Executive



Draft AGS presented to Audit Committee for review and approval



AGS signed by Elected Mayor, Chief Executive, Chair of Council and Chair of Audit Committee



AGS included within the Annual Financial Report

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North Tyneside Council Report to Audit Committee Date: 29 May 2019

ITEM 7

Title: Strategic Audit Plan
2018/19 - Final Monitoring
Statement

Report from Service Area: Resources

Report Author: Allison Mitchell, Chief Internal Auditor (Tel: 643 5720)

Wards affected: All

PART 1

1.1 Purpose:

The purpose of this report is to provide the Audit Committee with a final monitoring statement in respect of the Strategic Audit Plan for 2018/19 (this document is attached as **Appendix A**).

1.2 Recommendation:

It is recommended that the Audit Committee considers and notes the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as **Appendix A**.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Strategic Audit Plan 2018/19: Final Monitoring Statement

1.4.1 The Strategic Audit Plan for 2018/19 was presented to and approved by the Audit Committee at its meeting in March 2018. The Strategic Audit Plan helps to ensure that Internal Audit is able to meet its aims as an independent assurance function for the Authority and sets out Internal Audit's objectives (based on an assessment of risks and opportunities for the organisation).

1.4.2 The Strategic Audit Plan is supplemented with a detailed Annual Audit Plan, which sets out the key objectives for the audit reviews identified to take place during 2018/19. An interim monitoring statement was presented to the Audit Committee in November 2018 and it was agreed that a final outturn statement would be presented to the Audit Committee in May 2019, demonstrating performance against the Plan. A final monitoring statement, outlining progress against the Audit Plan for 2018/19, is attached as **Appendix A**. It takes each audit review area and associated key objectives, as agreed by Audit Committee, and notes the progress achieved.

1.4.3 During 2018/19, 45 audit assignments were programmed. 1 assignment was not required during 2018/19. By April 2019, 36 assignments (82%) were either complete or underway. Those audits not yet commenced have been risk assessed as part of Internal Audit's continuing rolling programme and the majority have been included in the Strategic Audit Plan during 2019/20.

1.4.4 This variation in the original planned coverage has occurred due to the deployment of a Senior Auditor on a non-audit role for part of the year (in Procurement); and some difficulties in recruiting to new posts established within the wider shared Internal Audit and Risk Management service.

1.5 Decision Options:

It is recommended that the Audit Committee notes the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as **Appendix A**.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Strategic Audit Plan 2018/19: Final Monitoring Statement

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel: 643 5738

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance and Accountancy / Institute of Internal Auditors, April 2017 (P) [Public Sector Internal Audit Standards](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019 (P)
- (c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) http://november.northtyneside.gov.uk:7777/pls/portal30/NTC_PSCM.PSCM_Web.download?p_ID=515604
- (d) Strategic Audit Plan 2018/19, March 2018 (P) <https://my.northtyneside.gov.uk/sites/default/files/meeting/agenda/Audit%20Committee%2028%20March%202018.pdf>
- (e) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
- (f) The Accounts and Audit Regulations 2015, April 2015 (P) http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards and related Local Government Application Note require that the Chief Internal Auditor should report periodically to senior management and the board on Internal Audit matters, including "performance relating to its plan".

2.3 Consultation/community engagement

The Strategic Audit Plan 2018/19 was prepared following consultation with: the Chief Executive; Deputy Chief Executive; Head of Resources (Chief Finance Officer); all Heads of Service and Cabinet Member for Finance and Resources.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

The risks associated with this report have been considered and discussed with the Senior Risk Advisor and will be managed in accordance with the North Tyneside Council risk process.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report author Allison Mitchell
 Kevin McDonald

Internal Audit Service

Strategic Audit Plan 2018/19: Final Monitoring Statement

May 2019



Annual Audit Plan 2018/19 - Outturn

Advice & Programme Assurance

Heading	Auditable Area	Description / Audit Objectives	Outturn
Advice, Contingencies & Assurance	<ul style="list-style-type: none"> • Advice & Guidance • Contingencies & Work Requests • Fraud & Special Investigations 	Responding to ad-hoc queries and requests for advice; responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; responding to allegations of fraud (<i>see also proactive anti-fraud work in counter fraud & internal control and probity section below</i>); project assurance and assuring appropriate consideration has been given to internal control & governance issues when new systems are introduced.	Complete – continues into 2019/20.
Programme Assurance	<ul style="list-style-type: none"> • New Systems / Methods of Service Delivery 	Internal Audit will add value by providing assurance on aspects of the approach and work undertaken, and assessing the robustness of arrangements for benefits realisation. The systems, programmes and new initiatives to be supported will include providing assurance to the Senior Leadership Team on the Creating a Brighter Future programme.	Complete – continues into 2019/20. Project Boards / Working Groups supported by Internal Audit include: <ul style="list-style-type: none"> • Construction Group Insourcing • Information Security Working Group • Office 365 & SharePoint (collaborative tooling solution) • Social Care IT Transformation (SCITT) Board

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	<ul style="list-style-type: none"> •Pre-Submission Review of Grant Claims 	<p>To undertake grant claim certification in respect of external funding regimes on behalf of the Council, to ensure that grant funding requirements have been met and grant claims are submitted in accordance with grant conditions, to maximise available grant income.</p>	<p>Complete. During 2018/19 grant claim certifications totalled £6.263m and included:</p> <ul style="list-style-type: none"> • Troubled Families (£0.308m) • Carbon Reduction Commitment Energy Efficiency Scheme (£0.249m) • Local Transport Plan (£3.66m) • Disabled Facilities Grant (£0.129m) • Cobalt Cycle Scheme (£0.084m) • Growth Hub Funding for NECA / LEP (£0.416m) • NTC SCITT Grant (£0.022m) • A191 Corridor Local Growth Fund (£1.395m)
	<ul style="list-style-type: none"> •Annual Opinion 	<p>An annual opinion on the ‘adequacy and effectiveness of the framework of governance, risk management and control’ will be drafted and presented to the Chief Executive, Head of Resources (Section 151 Officer), Senior Leadership Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council’s Annual Governance Statement.</p>	<p>Complete – Report to Audit Committee May 2019.</p>
	<ul style="list-style-type: none"> • Follow up on Recommendations 	<p>Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.</p>	<p>Complete – continues into 2019/20. A dedicated review will be undertaken during 2019/20 regarding the process of following up recommendations. This work will be undertaken as part of the audit service Quality Assurance and Improvement Programme.</p>

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Outturn
Corporate and Cross Cutting	<ul style="list-style-type: none"> • Governance and value for Money Reviews 	<p>To review whether appropriate internal controls exist within a sample of significant business arrangements within North Tyneside Council. Where it is possible to assess the economy, efficiency and effectiveness of specific aspects of these arrangements, this will also be undertaken. Areas to be reviewed under this heading in 2018/19 include:</p> <ul style="list-style-type: none"> • Ethical Governance (including controls regarding declarations of interest, and acceptance of offers of gifts and hospitality by both officers and elected members) • Construction Partner in-sourcing • Corporate Health and Safety • Direct Payments (and financial aspects of care provision) • Risk Management arrangements • Treasury Management arrangements • Section 106 / Section 278 Arrangements • Use of Waivers in procurement • Exploring the use of technology-based audit techniques (for example, in income maximisation) 	<p>Prior Year Work Completed: Business Continuity Management (Significant Assurance – 2 medium & 10 low priority recommendations).</p> <p>Underway</p> <p>Complete (project assurance role) Underway Review of Deprivation of Liberty processes underway Deferred to 2019/20 Deferred to 2019/20 Deferred to 2019/20 Audit coverage in these areas will be included within other work to be included within the Internal Audit Plan.</p>

Audit and Assurance – Service Area Specific

Heading	Auditable Area	Description / Audit Objectives	Outturn
Children, Young People and Learning	<ul style="list-style-type: none"> • Primary & First Schools, Middle Schools and Secondary Schools • Schools' Financial Value Standard (SFVS) 	<p>To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of schools on a risk assessed basis.</p> <p>On behalf of the Head of Resources (Section 151 Officer), Internal Audit will co-ordinate Schools' Financial Value Standard submissions, for all of the Council's grant-maintained schools, and provide assurance to the Section 151 Officer relating to her annual report to the Department for Education.</p>	<p>Deferred to 2019/20</p> <p>Complete – Work undertaken by Internal Audit ensured that all schools were able to submit their assessments by the statutory deadline of 31 March 2019. Annual return was submitted to Department for Education by the required deadline.</p>
Tyne Port Health Authority	<ul style="list-style-type: none"> • Tyne Port Health Authority 	<p>On behalf of North Tyneside Council, as the Accountable Body for the administration of Tyne Port Health Authority, to undertake the internal audit requirements associated with the annual Small Bodies Return for this entity. This will involve acting independently and on the basis of an assessment of risk, performing a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2018. To determine an appropriate level of internal audit coverage in accordance with the body's needs, and on the basis of findings in the areas examined to summarise conclusions and report these in an appropriate form to the body.</p>	<p>Complete.</p>

Heading	Auditable Area	Description / Audit Objectives	Outturn
ICT	<ul style="list-style-type: none"> System Reviews 	<p>To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and council policy. In particular, to determine whether:</p> <ul style="list-style-type: none"> The systems comply with good practice and all legal, statutory and regulatory body requirements, and meet business need; All transactions are completely and accurately recorded and traceable; Access to information and facilities is controlled and restricted to authorised users according to their needs; The potential for fraud and error are minimised; The systems are effectively administered and supported; All staff using the systems have been correctly trained to the level that will allow them to properly fulfil their duties; The systems are continually available during working hours; The systems provide complete and accurate management information; and Upgrades to the systems are properly resourced and managed to meet clearly stated and agreed business objectives. <p>For 2018/19, specific ICT audit coverage will be prioritised in the following areas:</p> <ul style="list-style-type: none"> Telephony (mobile and landline) Payment Card Industry Data Security Standards (PCIDSS) Compliance Network Management Debtors (Ash) System Review Office 365 & SharePoint Liquid Logic System Review Implementation of General Data Protection Regulation 	<p>Work Completed:</p> <ul style="list-style-type: none"> Telephony (Limited Assurance – 4 medium & 25 low priority recommendations). PCI DSS (Limited Assurance – 4 medium and 4 low priority recommendations). Debtors (Ash) System (Limited Assurance – 4 medium and 9 low priority recommendations). Liquid Logic System - completed in addition to review of ContrOCC System. (Limited Assurance – 13 medium and 18 low priority recommendations). <p>Underway:</p> <ul style="list-style-type: none"> Network Management Implementation of General Data Protection Regulation <p>Deferred to 2019/20:</p> <ul style="list-style-type: none"> Office 365 & SharePoint. Not yet implemented and our programme assurance work in this area has therefore continued during 2018/19.

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Outturn
ICT	<ul style="list-style-type: none">Public Service Network (PSN) Compliance	To undertake the annual independent review of the Authority's compliance with the Public Service Network Code of Connection, to support the Authority's submission to the Public Services Network Authority for accreditation.	The Authority was accredited with PSN Compliance in July 2018 and therefore no further Internal Audit assurance is required until 2019/20.

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Outturn
Counter Fraud	<ul style="list-style-type: none">Pro-active anti-fraud work	To undertake pro-active anti-fraud and corruption work (including participation in the Cabinet Office's National Fraud Initiative and performing internal data matching exercises); and to raise the awareness of counter fraud and corruption measures across the organisation.	Complete – continues into 2019/20.

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Outturn
Internal Control & Probity	<ul style="list-style-type: none"> • Core Financial Systems: - Business Rates; - Council Tax; - Payroll; - Creditor Payments; - Cash and Bank; - Debt and Income Management; - Housing Rent Assessment & Collection; Housing & Council Tax Benefit 	<p>The core financial systems encompass the main ways in which the Authority either pays money out (Creditor Payments, Payroll, Housing & Council Tax Benefit) or receives monies in (Business Rates, Council Tax, Debt and Income Management, Rent Assessment and Collection). Each of these areas will be given some audit coverage in each financial year, but on a cyclical basis a more detailed review will be undertaken on one income system and one expenditure system each year.</p> <p>For 2018/19, those systems prioritised for an in-depth review are:</p> <ul style="list-style-type: none"> • Creditor Payments (including Accounts Payable, Purchase Card transactions, other payment means e.g. CHAPS, and Petty Cash) • Debt and Income Management (including whether agreed pricing schedules are in existence, whether pre-payment methods of income collection are optimised, whether debts are invoiced promptly, write off and recovery procedures are appropriate and sufficient to deter debts from becoming 'bad'). 	<p>The following 2017/18 work was completed during the year:</p> <ul style="list-style-type: none"> • Council Tax (Significant Assurance – 2 medium and 1 low priority recommendations). • Creditors (Significant Assurance – 2 medium priority recommendations) • Cash & Bank (Significant Assurance – 1 low priority recommendation) • Payroll (Significant Assurance – 9 low priority recommendations). • Rent Assessment & Collection (Full Assurance – no recommendations). <p>2018/19 work is at the following stages of completion:</p> <ul style="list-style-type: none"> • Business Rates – underway • Council Tax – complete (Significant Assurance – 2 low priority recommendations) • Payroll – underway • Creditors – underway • Cash & Bank – being undertaken during quarter 1 2019/20 • Debt & Income Management – underway • Rent Assessment & Collection – complete • Benefits – being undertaken during quarter 1 2019/20

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North Tyneside Council Report to Audit Committee Date: 29 May 2019

ITEM 8

Title: Key Outcomes from
Internal Audit reports Issued
between November 2018 and
April 2019

Report from Service Area: Resources

Report Author: Allison Mitchell, Chief Internal Auditor (Tel: 643 5720)

Wards affected: All

PART 1

1.1 Purpose:

The purpose of this report is to advise the Audit Committee of key outcomes from Internal Audit reports issued between November 2018 and April 2019 (**Appendix A**).

1.2 Recommendation(s):

It is recommended that the Audit Committee:

- (a) considers the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued, attached as **Appendix A**; and
- (b) notes the Chief Internal Auditor's opinion that, based on the outcomes from this work, the framework of governance, risk management and control is satisfactory overall.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Key Outcomes from Internal Audit Reports Issued Between November 2018 and April 2019

- 1.4.1 It is important that the Audit Committee receives regular updates on the key outcomes arising from Internal Audit's planned work. This is also emphasised in the Public Sector Internal Audit Standards (PSIAS), which state that "in addition to the annual report [*reported to the Audit Committee each May*], the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report".

- 1.4.2 The Terms of Reference for the Audit Committee state that it will consider the effectiveness of the Authority's control environment; and the Chief Internal Auditor's report and opinion in this regard. Reporting of key findings from Internal Audit reports issued at regular intervals allows the Audit Committee to be made aware of the Authority's governance arrangements on a timely basis during the year. It also enables the Audit Committee to develop an on-going awareness of the soundness of the framework of governance, risk management and control, to support the Chief Internal Auditor's annual report on this matter.
- 1.4.3 A summary of key outcomes from planned Internal Audit reports issued between November 2018 and April 2019, including areas of good practice identified and action taken to date by management in response to each audit, is attached as **Appendix A**. Based on the outcomes from audits issued to date, and management action undertaken in response to these, the Authority's framework of governance, risk management and control is considered to be satisfactory overall (which is a positive outcome for our organisation).
- 1.4.4 Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work are included in Internal Audit's annual report.

1.5 Decision Options:

It is recommended that the Audit Committee considers the summary of Internal Audit reports issued, attached as **Appendix A**, and the consequent evaluation of the Authority's framework of governance, risk management and control as satisfactory overall.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Key Outcomes from Internal Audit Reports Issued Between November 2018 and April 2019

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738
Steven Close (Senior Auditor) Tel 643 5734

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, March 2017 (P) [PSIAS March 2017](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019 (P)
- (c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) [Financial Regulations](#)
- (d) Strategic Audit Plans 2017/18 and 2018/19, March 2017 and 2018 (P) [Strategic Audit Plan 2017-18 Appendix A](#)
[Strategic Audit Plan 2018-19 Appendix A](#)
- (e) Internal Audit Reports & Briefing Notes prepared during 2017/18 (C)
- (f) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
- (g) The Accounts and Audit Regulations 2015, April 2015 (P) [The Accounts and Audit Regulations 2015](#)

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The guidance accompanying the legislation states that 'proper practices in relation to internal control' are those contained within the Public Sector Internal Audit Standards. The Public Sector Internal Audit Standards require that the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year.

2.3 Consultation/community engagement

All Internal Audit reviews were shared with and reported to the relevant audit client upon conclusion of each audit assignment, with actions agreed by management. Management comments on the summary of key outcomes from Internal Audit reports have been included in the report.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

Risks have been considered and there are no risks identified directly arising from this report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors Allison Mitchell
Kevin McDonald
Steven Close

Internal Audit Service

Key Outcomes from Internal Audit Reports Issued Between November 2018 and April 2019

May 2019



1 Introduction – the Framework of Governance, Risk Management and Control

- 1.1 Internal Audit is an independent and objective assurance function designed to add value and improve an organisation’s operations. Under the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to help an organisation accomplish its objectives by “bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 1.2 It is important that the Audit Committee receives regular updates on key findings and governance themes from Internal Audit’s work. This is also emphasised in the PSIAS which requires the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control, and to report on emerging issues in year.
- 1.3 In our organisation, the Chief Internal Auditor’s formal opinion is reported to the Audit Committee each May, timed to support preparation of the Authority’s Annual Governance Statement. ‘Opinion’ in this context does not mean ‘view’, ‘comment’ or ‘observation’; it means that Internal Audit must have performed sufficient, evidenced work to form a supportable conclusion about the activity it has examined.

2 Purpose of this Report

- 2.1 This report summarises the outcomes from Internal Audit reports which were finalised in consultation with management and issued in the six month period November 2018 to April 2019. Information has been provided on the level of assurance for each audit (described below), the number of recommendations made (classified according to priority), areas of good practice identified, and main findings.
- 2.2 It is intended that, by providing regular reports on key outcomes from Internal Audit’s work, this will enable the Audit Committee to develop an on-going awareness of the soundness of the framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor’s annual opinion on this matter each May.

3 Opinion on the Framework of Governance, Risk Management and Control (May 2019)

- 3.1 On the basis of Internal Audit work performed and described in this report, the report of the preceding period considered by the Audit Committee in November 2018, and work performed from the approved Strategic Audit Plan for 2018/19, the Chief Internal Auditor's opinion is that the organisation's internal systems of governance, risk management and control are **satisfactory**. This is a positive opinion for the organisation.
- 3.2 In this report, details of five audit opinions are presented. Of these one (20%) was 'full assurance', two (40%) were 'significant assurance' and two (40%) were 'limited assurance' opinion classification. No 'critical priority' recommendations were made. At the time of writing, a number of additional audit reports are in the process of finalisation/issue to our audit clients. These reports will be included in the next report to the Audit Committee, but the findings do not change our opinion on the framework of governance, risk management and control at this stage in the year.

4 Opinion Framework

- 4.1 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited, as defined below.

Full Assurance	The system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
Significant Assurance	There is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk in some of the areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the organisation's objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (or have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

- 4.2 The opinions given to audits issued during this period are shown in **Section 5**.
- 4.3 In addition to the overall opinion given on every internal audit, individual recommendations within each report are classified as critical, high, medium or low priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out in the following table:

Priority	Description
1* Critical	Action considered imperative to ensure the organisation is not exposed to unacceptable risks.
1 High / Fundamental	Action that is considered imperative to ensure that the service area / establishment is not exposed to high risks.
2 Medium / Significant	Action that is considered necessary to avoid exposure to considerable risks.
3 Low / Less Significant	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

4.4 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes.

4.5 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, Internal Audit has a significant and increasing role in advising on new systems within the Authority. Programme assurance and project boards supported by Internal Audit are shown below. Whilst time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit resource, in that assurance is obtained that effective controls are incorporated into new systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. Internal Audit has supported the following Project Boards (in a programme assurance role) and Working Groups during the period under review:

- Information Security Working Group
- Social Care IT Transformation (SCITT) Board
- Office 365 & SharePoint (collaborative tooling solution)
- Construction Group Insourcing

4.6 Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work will be included in Internal Audit's annual report.

IA/AHM/KM/SC
May 2019

5 Main Outcomes – Audit Reports Issued During the Period November 2018 to April 2019

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Council Tax	To determine whether the systems and procedures in operation for Council Tax collection are functioning satisfactorily, are in accordance with legislation and the stated priorities within the Council Plan.	Significant	0	0	0	2
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<ul style="list-style-type: none"> Audit testing identified that, for the accounts examined, the Council Tax system was updated fully and promptly following any amendments or actions such as valuation listing amendments, refunds and debt recovery. 		<ul style="list-style-type: none"> The Council Tax refund reconciliation spreadsheet for 2018/19 displayed several anomalies where a refund cancelled in General Ledger had not been cancelled in the Council Tax system. In one example an anomaly identified in May 2018 was still unresolved at the end of January 2019. In order for the Council Tax Service to award the Leaving Care discount, they must be provided with supporting evidence in the form of an email from the Authority's Leaving Care Team (forwarded on from the Client/Senior Client for Revenues, Benefits and Customer Services). In both cases sampled during the audit, evidence of the email could not be identified in the Information@Work system. 		Revenues management have self-certified both recommendations as complete. Guidance has been issued to all relevant staff reminding them of the need to consistently apply documented working practices.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Rent Assessment and Collection	<ul style="list-style-type: none"> To determine whether Housing rent and service charges are accurately updated to reflect annual changes in rent levels in accordance with Government formula and Council Policy. To examine and evaluate the controls in place within the organisation to mitigate against the risks of reduced income to the Housing Revenue Account (HRA) from government plans to reduce social housing rents, and any impact of Welfare Reform on rent collection levels. 	Full	0	0	0	1
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<p>There are effective practices in place with all Housing rents, service charges and garage rents subject to satisfactory modelling, reconciliation and checking for accuracy prior to being added to the live Northgate system.</p>		<p>The audit identified no significant issues. The one low priority recommendation raised in the audit referred to the draft Financial Inclusion Strategy that needs to be finalised and published.</p>		<p>The target date for the one low priority recommendation raised in the audit has not been reached.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
Page 69	Cash and Non-Credit Income	<ul style="list-style-type: none"> To determine whether there are adequate controls within income collection and reconciliation procedures to prevent and/or detect irregularity or error and that transactions are processed in accordance with Council policy, Financial Regulations, legislation and the requirements of external bodies such as HM Revenues and Customs. The audit concentrated on a high level review of the central controls in place for income management with no site visits or sample testing undertaken. A range of systems' intelligence was reviewed to assess how well the system was achieving its objectives and overall desired outcomes, safeguarding the interests of the Authority and achieving value for money. 	Significant	0	0	0	1
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
Staff from the relevant service areas involved in the audit demonstrated a good understanding of the relevant procedures and the necessity of internal controls and showed a willingness to address any weaknesses identified or suggestions of good practice offered.		At the time of the audit there was no single point of contact for income management within the Authority's Client Management Team.		The recommendation has been self-certified as complete. The Head of Resources has determined that the Senior Client Manager for Revenues, Benefits and Customer Services will be the single point of contact for the Authority.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	ASH Debtors System Review	To determine whether the systems and procedures in operation for the Debtors systems are functioning satisfactorily and are in accordance with legislation and Council policy.	Limited	0	0	4	9
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<ul style="list-style-type: none"> All system changes within ASH are recorded within their respective audit logs. Audit logs are user friendly both on screen and in hard copy. Several rounds of in-depth UAT were completed before the system was implemented. ICT and Revenues and Benefits teams undertook in-depth testing of all new functionality in the test system before implementing in the live environment. Several rounds of training were carried out by internal and external trainers, training length and content varied based on users' roles. 		<ul style="list-style-type: none"> There is an on-going issue with the reconciliation of totals between ASH Debtors and General Ledger. There is a clear button assigned to the Audit log and system maintenance logs which would allow users to clear the audit logs for the entire system. The ASH application includes delete and archive functions that have not been enabled increasing the risk that the Authority will eventually be in breach of record retention guidelines and data protection legislation. There is currently no provision for the Debtors system within the Disaster Recovery site. In the event the Quadrant East data centre was lost there would be no access to the Debtors system. 		<p>Revenues management have self-certified one medium priority and five low priority recommendations as complete. Target dates for the remaining recommendations have not been reached.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Liquidlogic and ContrOCC System Review	To determine whether controls and procedures in operation for the Liquidlogic and ContrOCC systems are functioning satisfactorily and are in accordance with legislation and Council policy.	Limited	0	0	13	18
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<ul style="list-style-type: none"> All system changes within Liquidlogic and ContrOCC are recorded within their respective audit logs. Audit logs are user friendly both on screen and in hard copy. Several rounds of in depth user acceptance testing (UAT) were completed for Liquidlogic. The Information Systems team undertook in depth testing of all new functionality in the test system before implementing in the live environment. Liquidlogic password controls replicate the corporate password policy applied to Active Directory (AD) accounts which was recently strengthened. Several rounds of training were carried out by internal and external trainers, training length and content varied based on users' roles. 		<ul style="list-style-type: none"> A number of Liquidlogic and ContrOCC user profiles provide users with access to the system that exceeds the business need. Uplifts to service provider charges in ContrOCC are not subject to system approval. Opportunities to identify data input errors leading to over/underpayments in a timely manner are limited. ContrOCC has the ability to enforce password complexity but this has not been enabled and users could set a single character password. Members of the ENGIE finance team currently have end to end privileges allowing them to create payees in the Business Management System (BMS), finalise the payment run and then pay the payees from BMS. This lack of separation of duties issue is exacerbated by ENGIE Finance creating suppliers in ContrOCC. Retention periods set within Liquidlogic Adults Social Care (LAS) are based on Liquidlogic defaults that are not in line with the Authority's agreed record retention periods. The Authority's disaster recovery (DR) site does not provide any resilience for Liquidlogic or ContrOCC should the primary internet link fail. 		<p>Management have self-certified four medium priority and four low priority recommendations as complete. Target dates for the remaining recommendations have not been reached.</p>			

6 Evidence Checking

- 6.1 Internal Audit reports issued during the period November 2018 to April 2019 included seventeen medium priority recommendations. In respect of these seventeen recommendations, five have been self-certified by management as fully implemented. The remaining twelve medium priority recommendations have not reached their target dates. All medium priority recommendations in the audits in scope were selected for evidence checking.
- 6.2 Details of those recommendations subject to evidence checking by Internal Audit are detailed in section 5 of this report, above. Summary information regarding the sample of evidence checking undertaken is provided in the table below.

Summary of results of evidence checking by Internal Audit, of medium priority recommendations self-certified as implemented by management as at April 2019.

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action	
		No.	%	No.	%
Critical	0	N/A	N/A	N/A	N/A
High	0	N/A	N/A	N/A	N/A
Medium	5	4	80%	1	20%
Total	5	5	100%	0	0%

- 6.3 Further work on how best to measure the implementation of agreed recommendations has been included as a target within Internal Audit's Service Plan for 2019/20 and will be reported to Audit Committee in due course.

North Tyneside Council Report to Audit Committee Date: 29 May 2019

ITEM 9

Title: 2018/19 Opinion on the
Framework of Governance,
Risk Management and Control

Report from Service Area: Resources

Report Author: Allison Mitchell, Chief Internal Auditor (Tel: 643 5720)

Wards affected: All

PART 1

1.1 Purpose:

The purpose of this report is to provide the annual opinion from the Chief Internal Auditor on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, in accordance with the Public Sector Internal Audit Standards.

1.2 Recommendation:

It is recommended that the Audit Committee considers and notes the Chief Internal Auditor's 2018/19 'satisfactory' opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as **Appendix A**.

1.3 Council Plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Internal Audit Annual Opinion 2018/19

- 1.4.1 The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS) to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The 2018/19 opinion from the Chief Internal Auditor is attached as **Appendix A**. This report documents Internal Audit's resourcing in the year, the work undertaken by Internal Audit during this period, highlights the main findings from this work, and gives the overall opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the framework of governance, risk management and control for the organisation.
- 1.4.2 The opinion is a source of assurance to the organisation when preparing the Annual Governance Statement, which will be presented to Audit Committee in its own right.

1.5 Decision Options:

It is recommended that the Audit Committee:

- (a) notes the 2018/19 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as **Appendix A**; and
- (b) considers this opinion as part of its approval of the Annual Governance Statement 2018/19.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Council to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: 2018/19 Opinion on the Framework of Governance, Risk Management and Control

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738

1.9 Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

- (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P) [Public Sector Internal Audit Standards](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013 (P)
- (c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) http://november.northtyneside.gov.uk:7777/pls/portal30/NTC_PSCM.PSCM_Web.download?p_ID=515604
- (e) Strategic Audit Plan 2018/19, March 2018 (P) <https://my.northtyneside.gov.uk/sites/default/files/meeting/agenda/Audit%20Committee%2028%20March%202018.pdf>
- (f) Internal Audit Reports & Briefing Notes prepared during 2018/19 (C)
- (g) The Accounts and Audit Regulations 2015, April 2015 (P) http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2 Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards require that the Chief Internal Auditor delivers an annual Internal Audit Opinion, which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This report complies with all necessary requirements of the Public Sector Internal Audit Standards.

2.3 Consultation/community engagement

The 2018/19 opinion on the adequacy and effectiveness of the framework of governance, risk management and control summarises Internal Audit findings communicated to and discussed with service management throughout the course of 2018/19. Regular reports have also been made to the Audit Committee throughout the year, advising of the outcomes of Internal Audit's work, in accordance with the Audit Committee's planned schedule of work.

2.4 Human rights

There are no human rights issues arising from this report.

2.5 Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6 Risk management

Internal Audit activity is based on a risk-based approach, thus ensuring that coverage is focussed on areas of Council activity where Internal Audit resource will deliver most benefit and assist most effectively in the management of risk.

There are no specific risks arising from this report.

2.7 Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8 Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors Allison Mitchell / Kevin McDonald

Internal Audit Service

2018/19 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

May 2019



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Executive Summary

Overall, Internal Audit work performed in the financial year 2018/19 found that internal control systems in the areas audited were effective.

The majority of audited areas were awarded an audit opinion of 'significant assurance'. No 'critical priority' or 'high priority' recommendations were made by Internal Audit during the year, and no 'no assurance' audit opinions have been issued or are pending. This demonstrates that overall, a sound approach to governance and control is in place throughout the organisation in the areas audited.

As reported to Audit Committee, a number of areas of good practice were identified throughout the year. In other areas, improvement plans already in place by management, together with Internal Audit's recommendations, will continue to strengthen the organisation's framework of internal control.

The opinion of the Chief Internal Auditor is therefore that, at the time of preparing this report, the organisation's internal control systems in the areas audited are **satisfactory**. This is a positive assessment of the Authority's control environment and reflects favourably on the organisation's governance arrangements.

As the risk environment within which local government operates continues to change, we will incorporate emerging risk areas within our future audit coverage. This will help to ensure that the annual opinion considers all material issues likely to affect the Chief Internal Auditor's judgement on governance, risk management and control.

1 Purpose of Report

- 1.1 This report has been written by the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

2 Governance, Risk Management and Control

- 2.1 Management's responsibility for the effectiveness of the internal control system is clearly set out in the Authority's Financial Regulations. The Regulations state¹:

- It is the responsibility of the Chief Finance Officer to assist the Authority to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.
- It is the responsibility of Chief Officers to:
 - Manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks.
 - Review existing controls in the light of changes affecting the Authority and to establish and implement new ones in line with guidance from the Chief Finance Officer and Internal Audit. Chief Officers should also be responsible for removing controls that are unnecessary or not cost or risk effective – for example, because of duplication.
 - Ensure staff have a clear understanding of the consequences of lack of control.

- 2.2 Appropriate controls will depend, amongst other factors, on:

- The nature, size and volume of transactions;
- The degree of control which management is able to exercise personally;
- The geographical distribution of the enterprise; and
- The cost of operation of the controls against the benefits expected from them.

¹ Financial Regulations, Version 5a (September 2013), Regulations C.20-C.23

2.3 There are eight main types of internal control, namely:

Preventative Controls

- (i) Segregation of duties (no one person should be responsible for processing and recording a complete transaction)
- (ii) Authorisation and approval (all financial transactions should require authorisation by an appropriate responsible official; the limits of authorisation should be specified)
- (iii) Physical (custody of / access to tangible assets should be secure and limited to authorised personnel)

Detective Controls

- (iv) Arithmetic & Accounting (controls within the recording function to check that transactions have been authorised, are included, are correctly recorded and are accurately processed)

Directive Controls

- (v) Organisation (responsibilities should be defined and allocated; reporting lines should be identified; delegation of authority should be clearly specified)
- (vi) Supervision (all actions by all levels of staff should be supervised; the responsibility for this supervision should be clearly laid down and communicated to the person being supervised)
- (vii) Personnel (procedures should exist to ensure that staff are competent to carry out the jobs assigned to them, including proper recruitment and performance management procedures, career prospects, training and pay policies)
- (viii) Management (controls exercised by management outside the day to day routine of the system, including supervision).

2.4 When auditing, Internal Audit assist management by testing to see whether the controls established for any given system are appropriate. It is important to stress that Internal Audit, while part of the Authority's overall assurance framework, is not a substitute for effective internal control within the Authority's systems.

3 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

- 3.1 The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS), introduced in 2013 and revised April 2017, to provide an annual opinion, based on an objective assessment of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. For the purpose of meeting this requirement, the Chief Internal Auditor provides one of two opinions:
- (a) That the organisation's framework of governance, risk management and control is **satisfactory** (i.e. that satisfactory assurance can be obtained from governance systems and procedures in place); or
 - (b) That the organisation's framework of governance, risk management and control is **not satisfactory** (i.e. that there is insufficient control in evidence within the organisation's governance systems to provide satisfactory assurance).
- 3.2 The opinion of the Chief Internal Auditor is that, at the time of preparing this report, the organisation's internal systems of governance, risk management and control were **satisfactory** overall during 2018/19. The Chief Internal Auditor has not needed to place reliance on the work of other bodies in forming her view, and there are no limitations in the scope of this opinion. There are no qualifications to this opinion.
- 3.3 This judgement is informed by the outcomes of Internal Audit work during 2018/19, which are reported to the Audit Committee in regular updates of key outcomes. These have demonstrated that the majority of audit opinions for work undertaken in this period have been 'full assurance' or 'significant assurance', with a small number of 'limited assurance', and no 'no assurance' opinions. A full list of audits performed and opinions issued is included at **Annex A**.
- 3.4 A number of areas of good practice were identified throughout Internal Audit's work during the year. In addition, evidence checking and follow up performed by Internal Audit has demonstrated effective management action in implementing Internal Audit's recommendations.
- 3.5 It is recommended that Internal Audit's satisfactory opinion on the framework of governance, risk management and control is considered as a source of assurance for the preparation of the Annual Governance Statement for 2018/19, and its subsequent approval by the Audit Committee.
- 3.6 This is a positive opinion, which means that the organisation has suitable internal control systems. This opinion is based solely on the areas reviewed, and the progress made by the organisation to action Internal Audit recommendations.

- 3.7 This opinion on the framework of governance, risk management and control has been prepared in accordance with the Public Sector Internal Audit Standards and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance and Accountancy as the 'relevant Internal Audit standard setter'.
- 3.8 Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist. In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation.

4 Audit Resourcing During 2018/19

- 4.1 The Regulations governing the operation of Internal Audit are the Public Sector Internal Audit Standards (PSIAS) 2017. In terms of resourcing, the PSIAS state that Internal Audit must be "appropriately positioned and adequately resourced". The PSIAS goes on to state that the Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Where the Chief Internal Auditor believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board (in North Tyneside, the Audit Committee).
- 4.2 In 2018/19, Internal Audit's resourcing has been lower than planned, due to a number of factors. Against planned productive days of 975, 752 (77%) was achieved. This involved:
- Deployment of an internal audit resource on a one-off item of non-audit work (82 days).
 - 145 days used elsewhere in the shared service, coupled with difficulties in recruiting to new posts established within the shared service. This will be addressed by 2019/20 coverage within our organisation.
 - Staff productivity exceeded that forecast.

5 Internal Audit Work Performed During 2018/19

- 5.1 Internal Audit has provided an audit, advice, and programme assurance service to the Authority in 2018/19. The work of Internal Audit is governed by the PSIAS and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance & Accountancy as the 'relevant Internal Audit standard setter'.
- 5.2 The audit reports and briefing notes issued during 2018/19, and those related to this period which are currently being finalised with our audit clients, are set out at **Annex A**.

- 5.3 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited, as defined below.

Full Assurance	The system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
Significant Assurance	There is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design of, or occasional non-compliance with, key controls put the achievement of the organisation's objectives at risk in some of the areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the organisation's objectives at risk in some or all of the areas reviewed.
No Assurance	Significant weaknesses in the design of, or consistent non-compliance with, key controls could result (or have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

- 5.4 The opinions given to audits issued during 2018/19 are also shown in **Annex A**.

- 5.5 In addition to the overall opinion given on every internal audit, individual recommendations within each report are classified as critical, high, medium or low priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out below:

Priority	Description
1* Critical / Catastrophic	Action that is considered critical to ensure the organisation is not exposed to unacceptable risks.
1 High / Fundamental	Action that is considered urgent to ensure that the service area / establishment is not exposed to high risks.
2 Medium / Significant	Action that is considered necessary to avoid exposure to considerable risks.
3 Low / Less Significant	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

- 5.6 The number of Internal Audit recommendations agreed with management during the 2018/19 audit year, classified against each priority, is provided in the table below (data from the previous five years is also shown for comparison):

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Critical Priority	Nil	Nil	Nil	Nil	Nil	Nil
High Priority	7 (3%)	7 (3%)	Nil	3 (2%)	2 (1%)	Nil
Medium Priority	71 (27%)	101 (37%)	131 (41%)	56 (36%)	51 (38%)	37 (28%)
Low Priority	184 (70%)	163 (60%)	187 (59%)	98 (62%)	82 (61%)	94 (72%)
TOTAL	262 (100%)	271 (100%)	318 (100%)	157 (100%)	135 (100%)	131 (100%)

Note: Percentages contain roundings

- 5.7 There is a trend reflected within the table above of a reducing number of recommendations. Resourcing continues to be closely monitored and additional resources have been sought via the shared service arrangements in place with our partner Authority (Northumberland County Council).
- 5.8 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes. This is in accordance with the requirements of Public Sector Internal Audit Standards, which requires that a Quality Assurance and Improvement Programme is in place for Internal Audit's work.

Audit Highlights 2018/19

- 5.9 This section of the report is designed to draw attention to significant audits and findings from Internal Audit in the 2018/19 year. It should be read in context of the overall positive 'satisfactory' audit opinion described above.
- 5.10 It is of comfort to the Authority that the fundamental financial systems, and high value / high volume transactional systems achieved 'significant assurance' or 'full assurance'. These systems comprise the main processes by which the organisation makes payments or receives income.
- 5.11 Attention is also drawn to the 'significant assurance' opinion reached in respect of Business Continuity Management. Appropriate arrangements were found to be in place for business continuity management across the Authority and its major strategic partners, to maintain continuity of service delivery in the event that a business disruption was to occur. Given the importance of continued service delivery to our residents and customers, a 'significant assurance' opinion in respect of this aspect of the Authority's arrangements is to be welcomed.
- 5.12 In terms of the areas where a 'limited assurance' opinion was determined, Internal Audit would draw attention to the audits of Telephony, Payment Card Industry Data Security Standards (PCIDSS), Liquidlogic and ContrOCC system and Debtors ICT System. This highlights key areas of risk which should be a focus of management attention, especially given the importance of computerised systems for the effective delivery of so many of the

Authority's services. Whilst currently being finalised with clients, the audit of Network Management found arrangements to be more soundly based, resulting in an indicative 'significant assurance' opinion for that audit.

5.13 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, during 2017/18 Internal Audit has had a significant and increasing role in advising on new systems within the Authority. A full list of the programme assurance and project boards supported by Internal Audit is shown at **Annex A**. Whilst the time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit's resource, in that assurance is obtained that effective controls are incorporated into new major systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. It is expected that this type of audit work will continue in future years. Key highlights from Internal Audit's programme assurance work during 2018/19 include:

a) Information Security Working Group (ISWG)

Internal Audit attendance at the ISWG (formerly Computer Security Working Group) has been constant since its inception in circa 2002. The purpose of the ISWG is to promote the effective management of Authority information in all formats throughout its lifecycle and to meet operational, legal, security and evidential requirements. The ISWG supports the Authority in identifying and managing its information needs, risks and responsibilities by reviewing policies and procedures that comprise the Information Governance Assurance Framework (IGAF) recommending action where appropriate to strengthen information security controls. The ISWG meets on a monthly basis and, in addition to authorising any changes to relevant policies, reviews any information security breaches or near misses and considers whether these were due to end user error or, if caused by weaknesses in working practice or use of technology, determine what measures should be implemented to mitigate the risk of future incidents.

b) Social Care IT Transformation (SCITT) Board

The SCITT Board was formed in November 2016. Its remit included (but was not limited to) implementation of the Liquidlogic Adults and Children's social care case management systems and the ContrOCC contract management, budgeting and payments system. Its scope also included the provision of facilities for mobile working to enable staff to operate away from an office environment, including in clients' homes, and web-based services to support self-service by the public, clients, and staff.

Internal Audit's role on the SCITT Board was to provide an independent assurance role and as such provide an audit comment on any issues presented at Board meetings. A key focus of Internal Audit's role on the Board has been assurance around data transfer – the most significant risk in the project.

A specific issue brought to the Board's attention by Internal Audit was resilience for hardware hosted in the Quadrant data centre, which is required to authenticate users to the externally hosted Liquidlogic applications. A risk was identified that the hardware, though hosted internally, was not managed by ICT; with the possibility that any failure might result in a loss of access to Liquidlogic by the user base. Disaster recovery arrangements within the Authority have however been the subject of significant Senior Leadership Team oversight, with dedicated plans in place should a disaster occur.

Additional resilience for the hardware has been increased within the Quadrant data centre, and Internal Audit have recommended that this increased control is further replicated to ICT's disaster recovery site.

c) Office 365 & SharePoint (collaborative tooling solution)

Internal Audit's role on the Collaboration and Information Board was to provide an independent assurance role and as such provide an audit comment on any issues presented at Board meetings. Internal Audit have highlighted management and resourcing as key risks in a project of this nature. Internal Audit has supported the eventual migration of data from the Authority's current data storage platforms to SharePoint by leading on an exercise to cleanse the relevant computer drives of redundant, obsolete and trivial data.

d) Construction Group Project - Internal Audit's contribution to this working group included providing a view on whether the corporate mobile device management solution, identified as part of the 365 project, would be adequate for Construction Group requirements.

5.14 There are a number of funding organisations that require an Internal Audit review prior to final grant claim submission. This area of our activity is also shown at **Annex A** and involved the certification of £6.263m grant funding in 2018/19.

5.15 Wherever possible, Internal Audit has sought to leverage shared learning through our shared service partnership with Northumberland County Council.

6 Schools' Financial Value Standard

6.1 Time was included in the audit plan for 2018/19 to support and co-ordinate the work required by the Schools Financial Value Standard (SFVS) on behalf of the Authority.

6.2 The SFVS has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. Governing bodies have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors; however the Authority's Chief Finance Officer is responsible for ensuring that submissions made by schools are in line with the judgements on these schools which have already been reached by Internal Audit.

6.3 On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinated, received and reviewed Schools' Financial Value Standard submissions, for all of the Authority's grant-maintained schools. All schools submitted their self-assessments by the deadline of 31 March 2019.

7 Special Investigations, Counter Fraud and the National Fraud Initiative (NFI)

7.1 In common with previous years, Internal Audit has performed 27 special investigations and management requests during 2018/19. These relate to issues which could not be foreseen in advance, and where irregularity may

have been indicated. As such, it is important that the organisation can call upon Internal Audit resource to respond quickly to assess the control and governance issues indicated and to secure evidence if required. Internal Audit's work in this area has included:

- potential cash discrepancies;
- appropriateness of ICT access;
- interrogation of ICT systems and email records; and
- examination of a major capital project (budget and project management arrangements)

- 7.2 Where irregularities were confirmed, swift action was taken by management (supported by Internal Audit) to cease the possibility of ongoing impropriety. Causes were then investigated and this, as is typically the case in this area of work, tended to highlight the need for enhanced directive control (see paragraph 2.3), in particular management and supervisory controls.
- 7.3 During 2015/16, dedicated counter fraud resource was appointed within the Internal Audit team. A thorough review of the Authority's operations has been undertaken, from a counter fraud perspective, and developed a 'counter fraud blueprint' highlighting the areas of North Tyneside's operations where the risks of fraud are likely to be most prevalent. These risk areas were ranked, and work prioritised to help ensure that resource focussed on areas of greatest risk to the Authority. Counter Fraud work undertaken during 2018/19 has resulted in the realisation of £0.342m in directly cashable savings and £0.401m in indirectly cashable savings.
- 7.4 North Tyneside Council is part of the Cabinet Office's National Fraud Initiative and is thus legally obliged to provide relevant information under the requirements of the Audit Commission Act 1998. Before this information can be provided, the Authority is required to ensure that appropriate steps have been taken to notify data subjects held in the organisation's relevant information systems that data may be used for the prevention and detection of fraud.
- 7.5 As in previous years, Internal Audit have acted as the lead within the Authority for the NFI data-matching exercise. Data was extracted from the relevant Authority systems and submitted to the Cabinet Office in preparation for the 2018/19 exercise. Details of data matches have now been released and Internal Audit is currently investigating the matches, in conjunction with officers within relevant departments, and updating the NFI system with outcomes.

8 Ad-hoc Queries / Requests for Advice

- 8.1 Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not usually appropriate to issue a formal report.

9 Clients' Views

- 9.1 For several years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment.
- 9.2 The feedback received from respondents for 2018/19 remains very positive. Clients score the service from 1 to 4 against a number of criteria, with 1 being very satisfied and 4 being very dissatisfied. From all the returned feedback forms, clients' overall opinion was that audits are constructive and provide value to management. The overall average score in 2018/19 was 1.0 (the highest that can be achieved).
- 9.3 Internal Audit seeks to continually improve and will be reviewing and implementing new processes through its quality assessment and improvement programme. The theme of comments added to the feedback is that audits are conducted in a professional manner and findings and recommendations will lead to system improvements.
- 9.4 The full results for 2018/19, along with comparative data from 2017/18, are shown at **Annex B**.

10 Annual Governance Statement 2018/19

- 10.1 The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement (AGS). Internal Audit has continued to target its assurance activity at areas of risk in its 2018/19 coverage in line with the agreed audit plan. Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop awareness of the application of the Authority's governance structure.
- 10.2 It is suggested that the following issues are considered for inclusion in the Annual Governance Statement:

Overall Opinion on the organisation's internal systems of governance, risk management and control:

The overall opinion of the Chief Internal Auditor on the organisation's internal systems of governance, risk management and control, was found to be satisfactory (ref. point 3.2).

In determining the overall 'satisfactory' opinion, the Chief Internal Auditor has had regard to the established framework of core financial systems in place within the Authority, which when audited during 2018/19 were found to bear appropriate internal controls and to be operating satisfactorily.

Annex A: **Formal Audit Reports issued during 2018/19**

<u>Audit:</u>	<u>Opinion:</u>
Business Continuity Management	Significant
Cash and Non-Credit Income	Significant
Council Tax (2018/19)	Significant
Council Tax (2017/18)	Significant
Creditors	Significant
Debtors System Review	Limited
Liquidlogic and ContrOCC System Review	Limited
Payroll	Significant
Payment Card Industry Data Security Standards (PCIDSS)	Limited
Telephony	Limited
Rent Assessment & Collection (2018/19)	Full
Rent Assessment & Collection (2017/18)	Full
Schools' Website Compliance with Department for Education	N/A
Tyne Port Health Authority Annual Return	N/A

Reports Pending from 2018/19 (draft report issued, awaiting issue as final report)

<u>Audit:</u>	<u>Indicative Opinion:</u>
Network Management	Significant

Grant Claim Certification

A191 Corridor Local Growth Fund (£1.395m)
 Carbon Reduction Commitment Energy Efficiency Scheme (£0.249m)
 Cobalt Cycle Scheme Local Growth Fund (£0.084m)
 Disabled Facilities Grant (£0.129m)
 Growth Hub Funding for NECA / LEP (£0.416m)
 Local Transport Plan (£3.66m)
 School-Centred Initial Teacher Training (SCITT) Grant (£0.022m)
 Troubled Families (£0.308m)

Project Boards / Working Groups

Internal Audit has also supported the following Project Boards / Working Groups during 2018/19 in a programme assurance role:

Construction Group Insourcing
Information Security Working Group
Office 365 & SharePoint (collaborative tooling solution)
Public Services Network
Social Care IT Transformation (SCITT) Board

Ad-hoc Queries / Requests for Advice

Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not always appropriate to issue a formal report.

Annex B: Overall Results from Client Feedback Forms 2018/19

Satisfaction score between 1 and 4 with 1 being very satisfied and 4 being very dissatisfied (scores from 2017/18 are shown in brackets):

	Average Score
AUDIT PLANNING/COVERAGE	
• With the advance notification for the audit	1.0 (1.0)
• With the areas covered by the audit	1.0 (1.0)
• That your requirements were reflected by the audit	1.0 (1.25)
AUDIT APPROACH	
• That the objectives of the audit were clearly explained and understandable to you	1.0 (1.25)
• With the knowledge and professionalism of the auditors	1.0 (1.0)
• With the attitude and politeness of the auditors	1.0 (1.0)
• With the auditors understanding of your operational requirements	1.0 (1.25)
• That there was adequate consultation on findings and recommendations	1.0 (1.25)
REPORTING ARRANGEMENTS	
• With the accuracy of the findings	1.0 (1.25)
• With the materiality of the findings	1.0 (1.25)
• That the report was clear and concise	1.0 (1.25)
• With the usefulness of the conclusions and recommendations	1.0 (1.25)
• With the arrangements for commenting on the draft report	1.0 (1.25)
• The time taken to produce the report following the audit visit	1.0 (1.5)
OVERALL OPINION	
• That the audit was constructive and provided value to management	1.0 (1.25)