



**North Tyneside Council**

17 May 2021

# Audit Committee

**Wednesday, 26 May 2021 commencing at 7.00 pm (please note the time).**

The Chamber, Quadrant, The Silverlink North, Cobalt Business Park, NE27 0BY. (Due to Covid precautions anyone wishing to attend should first notify the contact officer)

<b>Agenda Item</b>	<b>Page</b>
<b>1. Apologies for Absence</b>	
To receive apologies for absence from the meeting.	
<b>2. Declarations of Interest and Dispensations</b>	
You are invited to declare any registerable and/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 and/or non-registerable interests that have been granted in respect of any matters appearing on the agenda.	
<b>3. Minutes</b>	<b>5 - 10</b>
To confirm the minutes of the meeting held on 24 March 2021.	
<b>4. Audit Planning Report - To Follow</b>	
To give consideration to the External Auditor's audit planning report.	
<b>5. Update on the 2020/21 Final Accounts - To Follow</b>	

Members of the public are welcome to attend this meeting and receive information about it. However, in order to enable the meeting to be held in a Covid-secure manner, places for members of the public are limited. Please email [democraticsupport@northtyneside.gov.uk](mailto:democraticsupport@northtyneside.gov.uk) or call 0191 643 5316 if you wish to attend or require further information.

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## **Members of the Audit Committee**

Kevin Robinson (Chair)  
Councillor Debbie Cox  
Councillor Mrs Linda Arkley  
Councillor Linda Bell  
Councillor John Stirling

Malcolm Wilkinson (Deputy Chair)  
Councillor Janice Mole  
Councillor Gary Bell  
Councillor John O'Shea

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## Audit Committee

**Wednesday, 24 March 2021**

Present: K Robinson (Chair)  
M Wilkinson (Deputy Chair)  
Councillors D Cox, A McMullen, J Mole, M Rankin, P  
Richardson and J Wallace

### **AC/52/20      Declarations of Interest and Dispensations**

There were no Declarations of Interest or Dispensations reported.

### **AC/53/20      Minutes**

**Resolved** that the minutes of the meeting of the Committee held on 18 November 2020 be confirmed as a correct record and be signed by the Chair.

### **AC/54/20      Annual Audit Letter**

The Committee was presented with the Annual Audit Letter which had been prepared by the Authority's external auditors for the year ending 31 March 2020. It was explained that the delay in producing the final Audit Letter had been due to IT issues which had prevented its issue.

**Resolved** that the report be noted.

### **AC/55/20      Accounting Policies to be used in the compilation of the 2020/21 Annual Statement of Accounts**

Consideration was given to a report which set out the proposed accounting policies that would be used in the preparation of the 2021/22 Annual Statement of Accounts. It was explained that the purpose of the Accounting Policies was to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of the Authority.

A copy of the proposed draft Accounting Policies was set out and it was explained that there had been one change made to take account of the adoption of the Community Infrastructure Levy by the Authority.

**Resolved** that the Accounting Policies be endorsed and adopted by the Authority to be used for the compilation of the Authority's Annual Statement of Accounts for the financial year to 31 March 2021.

**AC/56/20 Annual Statement of Accounts 2020/21**

Consideration was given to a report which provided an update on the closure of the 2020/21 accounts. It was explained that the Authority's Chief Finance Officer was required to sign and certify that the Statement of Accounts presented a true and fair view of the Authority's financial position for the year ended 31 March 2021 no later than the 1 August 2021 and for the audited set of accounts to be approved and published no later than 30 September 2021.

Details of the work which had been undertaken to ensure that the Authority was in a position to meet the above deadlines was outlined. It was explained that there would be challenges in meeting the deadlines both within the Authority and for the External Audit team but steps had been taken to address those challenges.

It was noted that group accounts would continue to be required for 2020/21 as the anticipated balance sheet value of the North Tyneside Trading Company would be material to the Authority's statutory accounts.

**Resolved** that the work outlined in respect of the closure of the 2020/21 Accounts be noted.

**AC/57/20 Proposed Audit Committee Work Programme 2021/22**

Consideration was given to a report which presented a proposed programme of core business to be considered by the Committee during 2021/22 in line with the Committee's terms of reference. The proposed work programme would allow the Committee to discharge its duties effectively and efficiently and contribute to the Authority's governance arrangements. It was noted that the work programme could be subject to change to take account of issues which may affect the governance of the Authority or matters which arise during the course of the year.

Month	Items of Business
May 2021	<p data-bbox="387 1417 917 1456"><u>Internal Audit and Risk Management</u></p> <ul data-bbox="438 1458 1476 1794" style="list-style-type: none"> <li data-bbox="438 1458 1364 1529">• Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control</li> <li data-bbox="438 1532 1476 1603">• Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan)</li> <li data-bbox="438 1606 1321 1753">• Key Outcomes from Internal Audit Reports (reporting the key outcome of reports issued in the preceding six months and progress made with the implementation of audit recommendations)</li> <li data-bbox="438 1756 863 1794">• Risk Management Update</li> </ul> <p data-bbox="387 1832 507 1870"><u>Finance</u></p> <ul data-bbox="438 1872 1007 1910" style="list-style-type: none"> <li data-bbox="438 1872 1007 1910">• CIPFA Financial Management Code</li> </ul> <p data-bbox="387 1944 596 1982"><u>External Audit</u></p> <ul data-bbox="438 1984 927 2022" style="list-style-type: none"> <li data-bbox="438 1984 927 2022">• Audit Planning Report 2020/21</li> </ul>

	<ul style="list-style-type: none"> <li>External Audit Progress Report</li> </ul>
July 2021	<p><u>Finance</u></p> <ul style="list-style-type: none"> <li>Draft Statement of Accounts</li> <li>Draft Annual Governance Statement (and supporting information)</li> </ul>
September 2021	<p><u>Finance</u></p> <ul style="list-style-type: none"> <li>Final Statement of Accounts</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>Audit Results Report</li> </ul>
November 2021	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> <li>Interim Outturn Report (showing profiled performance against the Strategic Audit Plan)</li> <li>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)</li> <li>Risk Management Update</li> </ul> <p><u>Finance</u></p> <ul style="list-style-type: none"> <li>Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year)</li> <li>Report on preparation of Annual Statement of Accounts 2021/22</li> <li>CIPFA Financial Management Code – Mid-year update</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>External Audit Progress Report</li> </ul>
March 2022	<p><u>Internal Audit and Risk Management</u></p> <ul style="list-style-type: none"> <li>Strategic Audit Plan (for the forthcoming financial year)</li> <li>Annual Audit Committee Work Programme</li> <li>Annual Review of Audit Committee Effectiveness</li> </ul> <p><u>Counter Fraud</u></p> <ul style="list-style-type: none"> <li>Counter Fraud Annual Report</li> </ul> <p><u>Finance</u></p> <ul style="list-style-type: none"> <li>Report on accounting policies to be used in Compilation of Annual Statement of Accounts</li> <li>Report on preparation of Annual Statement of Accounts 2021/22</li> </ul> <p><u>External Audit</u></p> <ul style="list-style-type: none"> <li>Audit Planning Report 2021/22</li> <li>Audit Market Reform Update Report</li> </ul>

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Clarification was sought as to whether the Audit Section had sufficient resources to be able to undertake proposed work programme and it was confirmed that this was the case.

**Resolved** that (1) the proposed core business work programme be agreed;  
(2) it be noted that it may be necessary to change or adapt the timetable to ensure that consideration of governance issues is undertaken at the appropriate time and to respond to emerging trends during the year; and  
(3) it be noted that ad-hoc reports may be presented to the Committee as considered necessary.

### **AC/58/20      Review of Audit Committee Effectiveness**

Consideration was given to a report which presented a self-assessment of the Audit Committee arrangements following a review of the arrangements undertaken during 2019/20. It was noted that the Chartered Institute of Public Finance and Accountancy (CIPFA) periodically published good practice guidance which covered the role, functions and operation of Audit Committees, the last one being in 2018.

The self-assessment carried out in March 2021 had demonstrated that the Authority's Audit Committee arrangements reflected the good practice areas which were recommended by CIPFA. There had been some areas of development which had been delayed primarily due to the Covid-19 pandemic and actions had been planned to address those areas early in 2021/22.

The External Auditors confirmed that it was a helpful document.

**Resolved** that (1) the latest self-assessment of the Audit Committee arrangements against the CIPFA good practice guidance be endorsed;  
(2) the actions taken since the previous review be noted;  
(3) the self-assessment be used to form the basis of the Committee's annual report to Cabinet.

### **AC/59/20      Exclusion 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 items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.

### **AC/60/20      Strategic Audit Plan 2021/22**

Consideration was given to a report which set out the Strategic Audit Plan for 2021/22. It was explained that the Strategic Audit Plan helped to ensure that Internal Audit was able to provide an independent and objective opinion on the framework of governance, risk management and control. The plan also set out Internal Audit's medium term objectives.



It was explained that the Strategic Audit Plan had been developed in consultation with the Chief Executive, the Head of Resources and Heads of Service and was kept under regular review with an update report to be presented to the Committee in November 2021.

Officers responded to a series of members questions on the report.

**Resolved** that the Strategic Audit Plan 2021/22 and the need to keep risks and the associated impact on assurance under review be noted.

### **AC/61/20 Corporate Risk Management Summary Report**

Consideration was given to a report which outlined the corporate risks that had been identified for monitoring and management by the Council's Senior Leadership Team, as of 14 October 2020. The report provided detailed information on each of the corporate risks including the cause of the risk, the consequences if the risk were to materialise, the existing and new controls in place to address the risks and an assessment of their likelihood and potential impact.

The Chief Executive gave a comprehensive overview of each of the risks and the steps taken by the leadership team to address the risk and he responded in detail to members questions.

**Resolved** that the report be noted.

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## ITEM 6

Title: 2020/21 Opinion on the Framework of Governance, Risk Management and Control

# North Tyneside Council Report to Audit Committee Date: 26 May 2021

Report from Service Area: Resources

Report Author: Kevin McDonald, Acting Chief Internal Auditor (Tel: 643 5738)

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 2020/21 '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 2020/21

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 2020/21 opinion from the Chief Internal Auditor is attached as **Appendix A**. This report documents the work undertaken by Internal Audit during this period, highlights the main findings from this work, sets out Internal Audit's resourcing in the year and gives the overall opinion of the Chief Internal Auditor on the adequacy and effectiveness of the framework of governance, risk management and control for the organisation. This reflects the expected content set out in the Public Sector Internal Audit Standards.

1.4.2 The opinion is a source of assurance to North Tyneside Council when preparing the Annual Governance Statement. This is prepared separately and presented to Audit Committee by the Head of Resources (Chief Finance Officer).

## 1.5 Decision Options:

It is recommended that the Audit Committee:

- (a) notes the 2020/21 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 a strand of assurance when receiving the Annual Governance Statement 2020/21.

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:** 2020/21 Opinion on the Framework of Governance, Risk Management and Control

## 1.8 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 (P)
- (c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) [Financial Regulations](#)
- (e) Strategic Audit Plan 2020/21, July 2020 (C)
- (f) Internal Audit Reports & Briefing Notes prepared during 2020/21 and 2021/22 (C)
- (g) [The Accounts and Audit Regulations 2015, April 2015 \(as amended\) \(P\)](#)

## **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 and non-financial governance and the importance of value for money. Effective control in these areas reduces the potential for loss through fraud, waste and inefficiency.

There are no direct 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 2020/21 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 2020/21. 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**      Kevin McDonald

# **Internal Audit Service**

## **2020/21 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control**

**May 2021**



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	Executive Summary
1	Purpose of Report
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11	Annual Governance Statement 2020/21
Annex A	Internal Audit reports issued during 2020/21
Annex B	Overall Results from Client Feedback Forms 2020/21



## Executive Summary

Overall, Internal Audit work performed in the financial year 2020/21 found that internal control systems in the areas audited were effective.

The majority of audited areas were awarded an audit opinion of 'significant assurance' or 'full assurance'. No 'critical 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.

Internal Audit is required to be alert to changes in the risk environment and conditions in which any audited entity operates. The Coronavirus pandemic brought about a number of changes in the Authority's risk profile and operations during 2020/21. This required Internal Audit's planned coverage during 2020/21 to flex and change accordingly, to reflect the emerging risks faced by the Authority and the resulting impact on the framework of Governance, Risk Management and Control. 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 state<sup>1</sup>:

- 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.

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<sup>1</sup> 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 2020/21. 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'.
- 3.3 This judgement is informed by the outcomes of Internal Audit work during 2020/21, 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 only one of 'limited assurance', and no 'no assurance' opinions. A full list of audits performed and opinions issued is included at **Annex A**. In addition, Internal Audit's work on project assurance (described in paragraph 5.12 below and in **Annex A**) has also been a source of evidence and business intelligence when compiling this annual opinion.
- 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 2020/21, and its subsequent consideration 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 on the areas reviewed by

Internal Audit, and the progress made by the organisation to action Internal Audit recommendations. Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist.

- 3.7 However, Internal Audit is required to be alert to changes in the risk environment and conditions in which any audited entity operates. The Coronavirus pandemic has brought about a number of significant changes nationally, since the end of the 2019/20 financial year and throughout 2020/21. The Coronavirus pandemic has been far-reaching in its impact and local authorities have subsequently been a key part of the response to the pandemic. The impact of the pandemic continues to evolve and all local authorities are continuing to evaluate the changes to their risk profile and operations.
- 3.8 In addition to the revised programme of Internal Audit's work during 2020/21, including work reflecting the impact of the Coronavirus pandemic, the Chief Internal Auditor's opinion reflects the express consideration by the Authority of the impact of Coronavirus on its operations and work undertaken. A source of assurance for the Chief Internal Auditor's opinion is the coordinated approach by the Authority, particularly in relation to the Recovery Coordination Group (RCG), which provided governance over a variety of workstreams under appropriate themes, to manage the impact of the pandemic across the Authority. Support was provided to all workstreams from appropriate support services, including the corporate risk management processes, and this is a useful source of additional assurance for the Chief Internal Auditor in forming his opinion for 2020/21. There are no limitations in the scope of the opinion.
- 3.9 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. It is management's responsibility to implement agreed recommendations. As part of 2021/22 planned service improvements, Internal Audit will be reviewing the approach to evidence checking the extent to which agreed recommendations have been implemented. In doing so, Internal Audit must balance the value to be gained from revisiting previous recommendations, management's own responsibility for their implementation and the respective value to be gained by reviewing new areas of emerging risk.

## **4 Audit Resourcing During 2020/21**

- 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 Resourcing is closely monitored, and a decision to create a further Senior Auditor post has been taken. Following a recruitment process the successful candidate should commence employment as soon as the required pre-employment checks have been completed. Management of resources continues to be undertaken under the Council's prevailing policies.

## 5 Internal Audit Work Performed During 2020/21

- 5.1 Internal Audit has provided an audit, advice, and programme assurance service to the Authority in 2020/21. 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 2020/21, 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 2020/21 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 2020/21 audit year, classified against each priority, is provided in the table below (data from the previous five years is also shown for comparison):

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Critical Priority	Nil	Nil	Nil	Nil	Nil	Nil
High Priority	Nil	3 (2%)	2 (1%)	Nil	3 (2%)	Nil
Medium Priority	131 (41%)	56 (36%)	51 (38%)	37 (28%)	52 (32%)	35 (41%)
Low Priority	187 (59%)	98 (62%)	82 (61%)	94 (72%)	107 (66%)	51 (59%)
TOTAL	318 (100%)	157 (100%)	135 (100%)	131 (100%)	162 (100%)	86 (100%)

Note: Percentages contain roundings

- 5.7 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 2020/21

- 5.8 This section of the report is designed to draw attention to significant audits and findings from Internal Audit in the 2020/21 year. It should be read in context of the overall positive 'satisfactory' audit opinion described above.
- 5.9 It is of comfort to the Authority that the Council Tax and Benefits audits achieved assurance of 'significant' and 'full'. These systems and processes protect the resources of the Authority. The Treasury Management audit also

received assurance of 'significant' which confirmed that governance arrangements were in place and the Authority generally complied with the CIPFA Treasury Management Code.

- 5.10 Attention is also drawn to the 'significant assurance' opinion reached in respect of the Risk Management audit. Appropriate arrangements were found to be in place across the Authority. Given the importance of this, a 'significant assurance' opinion in respect of this aspect of the Authority's arrangements is to be welcomed. Additionally, the 'significant' assurance opinions for audits of the Accuserv System and the Payment Card Industry Data Security System confirm that the IT environment within these specific areas is working well.
- 5.11 The Internal Audit of Section 106 (s106) and Community Infrastructure Levy (CIL) received a 'Limited Assurance' audit opinion. The audit identified areas where controls and procedures can be strengthened specifically in relation to the setting and monitoring of trigger points and in the calculation of s106 amounts. Management accepted and agreed all recommendations which once implemented will enhance the overall control environment.
- 5.12 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, during 2020/21 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 for traditional substantive testing, 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. Internal Audit's programme assurance work during 2020/21 included supporting:
- a) Catering New Schools Meals Payment System
  - b) Information Governance and Security Group
  - c) ICT Operations Advisory Board
  - d) Office 365 Project Board
  - e) Social Care Payment System (Adults' and Children's)
  - f) Unified Project (replacement system for housing and building repairs)
- 5.13 As a general comment, recent projects have identified areas that would have benefitted from more in-depth assurance from Internal Audit at an earlier juncture. This has been discussed with the Head of Resources (Section 151 Officer).
- 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 £9.2429m grant funding.
- 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 2020/21 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 the Authority's grant-maintained schools. All schools were originally required to submit their self-assessments by the deadline of 31 March 2021. However due to the impact of the Coronavirus pandemic, the Department for Education (DfE) subsequently extended the deadline for school submissions to 28 May 2021. Prior to this announcement Internal Audit had already received and reviewed the majority of school's SFVS and will review the remaining few once received. The annual Assurance Statement will be completed and submitted to the DfE by the new deadline of 9 July 2021.

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

- 7.1 In common with previous years, Internal Audit has performed a number of investigations and management requests during 2020/21. 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:
- asset management procedural review;
  - appropriateness of ICT access; and
  - interrogation of ICT systems and email records.
- 7.2 Where irregularities were confirmed, swift action was taken by management (supported by Internal Audit) to cease the potential for 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 There is one dedicated Counter Fraud officer within the Internal Audit team. A thorough review of the Authority's operations has been undertaken, from a

counter fraud perspective, and a 'counter fraud blueprint' has been developed highlighting the areas of North Tyneside's operations where the risks of fraud are likely to be most prevalent. These risk areas are revised and ranked annually, and work is prioritised to help ensure that our counter fraud resource is focused on areas of greatest risk to the Authority. Counter Fraud work undertaken during 2020/21 has resulted in the realisation of £0.124m in directly cashable savings and £0.317m 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 2020/21 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. An additional data set, containing information about Covid19 business grants paid out by the Authority in the first half of the financial year, was also requested and submitted.

## **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.
- 8.2 The Coronavirus pandemic occurred in the last quarter of the 2019/20 financial year and is continuing at the time of writing. The nature and scale of the pandemic has required unprecedented response from the Government and other public service bodies, including (significantly) local government as a sector. Throughout the 2020/21 year, Internal Audit has reprofiled and prioritised its assurance coverage to areas of emerging risk occurring as a result of the pandemic including the following areas:
- Multiple Business Grant Schemes
  - Support for Public Health Payments to GP practices and Pharmacists during the pandemic
  - Social Care Payment initiatives during the period of the pandemic for Adults and Children's Services
  - Self-Isolation Payments
- 8.3 Some of these areas were significant, for example, approximately £54m was paid to over 3,000 businesses in approximately 11,500 transactions through the various Business Grant Schemes. This is a high risk area due to new payment systems developed to administer the payments, the speed at which

government required the Authority to make the payment to protect the local economy, and the complexity of the arrangements. A range of post assurance activity is still ongoing.

## 9 Public Sector Internal Audit Standards: Summary of Conformance

- 9.1 All public sector internal audit providers in the UK are required to comply fully with the Public Sector Internal Audit Standards (PSIAS). The PSIAS require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the Internal Audit service to be assessed against the PSIAS, and a related Local Government Application Note (LGAN), for conformance.
- 9.2 The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the PSIAS, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.
- 9.3 Internal Audit services are delivered to the Authority by the Shared Internal Audit Service (which provides services to North Tyneside Council and Northumberland County Council). The Shared Internal Audit Service was externally assessed for compliance with the PSIAS during 2017 / 2018 and the assessment concluded that:

*“The Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion. There were no areas of concern to be reported.”*

- 9.4 In accordance with PSIAS, annual self-assessments have been completed since the external inspection which are congruent with the opinion of the external assessment. The small number of areas in which further development had been identified, (e.g. the involvement of the Chair of Audit Committee in the Chief Internal Auditor’s performance appraisal) have been implemented.

## 10 Clients’ Views and Quality Assessment and Improvement Programme

- 10.1 For several years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment.
- 10.2 The feedback received from respondents for 2020/21 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 2020/21 was 1 which is the highest that can be achieved.

- 10.3 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. However, Internal Audit seeks to continually improve and will be reviewing and implementing new processes during 2021/22 to refine the reporting format and review process.
- 10.4 The full results for 2020/21 are shown at **Annex B**.

## **11 Annual Governance Statement 2020/21**

- 11.1 The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement. Internal Audit has continued to target its assurance activity at areas of risk in its 2020/21 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 Council's governance structure.
- 11.2 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 risk management arrangements and core financial systems in place within the Authority, which when audited during 2020/21 were found to bear appropriate internal controls and to be operating satisfactorily.

**IA/KM**  
**May 2021**

## **Annex A:** **Formal Audit Reports issued during 2020/21**

<u>Audit:</u>	<u>Opinion:</u>
Accuserv System Review (housing and building repairs system)	Significant
Housing Benefit	Full
Rent Assessment and Collection 2020/21	N/A
Payment Card Industry Data Security Standard	Significant
Public Services Network (PSN) Code of Connection	N/A
Risk Management	Significant
Section 106 (s106) and Community Infrastructure Levy (CIL)	Limited
Treasury Management Arrangements	Significant
Council Tax	Significant
Rent Assessment and Collection 2019/20	Full
Tyne Port Health Authority Return	N/A

### **Reports Pending from 2020/21 (draft report issued, awaiting issue as final report)**

#### Audit:

Hardware and Software Management  
Security Information and Event Management System

### **Reports from 2020/21 substantially complete and currently going through the internal quality assurance process before the draft is issued**

#### Audit:

Perimeter Security  
Creditor Payments  
Debt and Income Management  
Catering New Income Management Process Review

### **Grant Claim Certification**

Blue Badge Grant – £0.006m  
Coast Road Cycle Route – Transforming Cities Fund – £0.456m  
Covid-19 Compliance and Enforcement Grant Certification – £0.106m  
Covid-19 Home to School Transport Additional Funding Grant Certification – £0.0749m  
Covid-19 Travel Demand Management Top Up Grant – £0.03m  
EU Exit Readiness Grant for NELEP – £0.2m  
Growth Hub Funding for NELEP – £0.4m  
Local Transport Plan – £3.3m  
North Bank of Tyne – £4.472m  
North East Investment Fund - Regional Growth Fund Employment Impacts for NELEP (certifying outputs, not values)  
Troubled Families – £0.198

### **Project Boards / Working Groups**

Internal Audit has also supported the following Project Boards / Working Groups during 2020/21 in a programme assurance role:

Catering New Schools Meals Payment System  
Information Governance and Security Group  
ICT Operations Advisory Board  
Office 365 Project Board  
Social Care Payment System (Adults' and Children's)  
Unified Project (replacement system for housing and building repairs)

### **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 2020/21**

Satisfaction score between 1 and 4 with 1 being very satisfied and 4 being very dissatisfied:

<b>AUDIT PLANNING &amp; CONSULTATION</b>	Average Score
• With the period of notice for commencement of the audit	1.33
• With the explanation provided of the audit process	1
• With the areas of coverage from the audit	1
• That your requirements were reflected by the audit	1
<b>AUDIT APPROACH</b>	
• Attitude and professionalism of the auditor	1
• Auditor's knowledge and understanding of auditee's operational requirements	1
• Communication skills of the auditor	1
• Being kept informed of audit progress, including consultation on findings and likely recommendations	1
<b>REPORTING ARRANGEMENTS</b>	
• With the arrangements for consultation on the draft report	1
• With the accuracy and materiality of the report findings	1.66
• With the usefulness and practicality of the conclusion and recommendations in the report	1.66
• With the clarity of the report	1
• With the format and presentation of the report	1
• The time taken to receive the report following the audit visit	1.33
<b>OVERALL OPINION</b>	
• That the audit was constructive and useful	1

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## North Tyneside Council Report to Audit Committee Date: 26 May 2021

### ITEM 7

Title: Key Outcomes from Internal Audit reports Issued between November 2020 and May 2021

Report from Service Area: Resources

Report Author: Kevin McDonald, Acting Chief Internal Auditor (Tel: 643 5738)

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 2020 and May 2021 (**Appendix A**).

#### 1.2 Recommendation(s):

It is recommended that the Audit Committee considers the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued in this period, summarised in **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

*Key Outcomes from Internal Audit Reports Issued Between November 2020 and May 2021*

- 1.4.1 The work programme established for the Audit Committee ensures that the Committee receives regular reports summarising the outcomes from Internal Audit's planned work during the year. This is important in ensuring that Audit Committee is able to maintain oversight of emerging risks and governance themes as these arise during the year. This also reflects the Public Sector Internal Audit Standards (PSIAS), which state that "in addition to the annual report, 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 A summary of key outcomes from planned Internal Audit reports issued between November 2020 and May 2021, including findings, areas of good practice identified, and action taken to date by management in response to each audit, is attached as **Appendix A**. This information, along with intelligence gained from other substantive audit work reported earlier in the year and project assurance work, supports the development of the Annual Opinion from the Chief Internal Auditor on the Framework of Governance, Risk Management and Control.
- 1.4.3 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**, as part of its consideration of the framework of governance, risk management and control within the organisation.

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 2020 and May 2021

### **1.8 Contact officers:**

Kevin McDonald (Acting Chief Internal Auditor) Tel 643 5738  
Chris Henderson (Senior Auditor) Tel 01670 623939

## 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) [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.
- (c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) [Financial Regulations](#)
- (d) [Internal Audit Charter, July 2020 \(P\)](#)
- (e) Strategic Audit Plan 2020/21 July 2020 (C)
- (f) [Strategic Audit Plan 2019/20, March 2019 \(P\)](#)
- (g) Internal Audit Reports & Briefing Notes prepared during 2020/21 and 2021/22(C)
- (h) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
- (i) [The Accounts and Audit Regulations 2015, April 2015 \(as amended\) \(P\)](#)

## 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, both financial and non-financial. 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 direct 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 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**      Kevin McDonald  
Chris Henderson

## **Internal Audit Service**

# **Key Outcomes from Internal Audit Reports Issued Between November 2020 and May 2021**

**May 2021**



# 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 also to report on emerging issues in year.

## 2 Purpose of this Report

- 2.1 This report summarises the outcomes from Internal Audit reports which have been finalised, in consultation with management, and issued in the period from November 2020 – May 2021. 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. The progress made/action taken by management in respect of key issues identified from each audit has also been included. It is too early to report on action taken for a number of recommendations as the target dates have not yet been reached. In these cases, recommendations will be followed up later in the year in accordance with Internal Audit's agreed processes.
- 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 ongoing 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. Audit Committee will note that the findings from some audits covered in this report are one of the intelligence strands which have informed the Chief Internal Auditor's opinion on the framework of governance, risk management and control.
- 2.3 In this report, details of four audit assignments are presented. Of the four assignments, two received a 'significant opinion' and one received a 'low assurance' opinion. In one case an assurance opinion was not applicable. No 'critical' or 'high' priority recommendations were made. These reports are detailed in Section 4 below. Due to the Coronavirus pandemic and the reprioritising of Internal Audit resources a number of additional audit reports are still at draft stage and will be presented in the next Key Outcomes Report.
- 2.4 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. 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.

- 2.5 Between March 2020 and May 2021 Internal Audit has been heavily deployed in assurance work necessitated by the Coronavirus pandemic. This has involved project assurance and development of systems related to a number of business grant funding streams, and advising teams involved in work brought about by the pandemic on suitable controls in a rapidly changing environment. Internal Audit has also led on the post payment assurance and counter fraud elements of the pandemic response as well as having completed the certification of a number of central government grant returns.
- 2.6 A summary of the programme assurance and grant certification work undertaken by Internal Audit in the period is included at Section 6 of this report.

### 3 Opinion Framework

- 3.1 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.

- 3.2 The opinions given to audits issued during this period are shown in **Section 4**.
- 3.3 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.

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

IA/KM/CH  
May 2021



## 4 Main Outcomes – Audit Reports Issued During the Period November 2020 to May 2021

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Section 106 (s106) and Community Infrastructure Levy (CIL)	To review whether an appropriate system of internal controls is in place and functioning for s106 and CIL processes. To ascertain whether the Authority is ready to meet the requirement to publish data for the Annual Infrastructure Funding Statement (AIFS) Requirements.	Limited	0	0	14	10
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>The Investment Programme Board (IPB) s106 sub-group has been introduced to provide oversight and co-ordination of investment decisions. The s106 sub-group receives reports presenting planning applications and s106 requests, as well as projects to defray collected s106 contributions and notes of meetings are recorded.</p>		<ul style="list-style-type: none"> <li>The calculation of obligation amounts could be more consistent and the obligations amounts were not always included in the s106 Agreement (<b>five medium</b>).</li> <li>Trigger points were not always clear or easy to determine (<b>medium</b>).</li> <li>Agreements were not always index linked (<b>medium</b>).</li> <li>A regular reconciliation of s106 Agreements recorded in the system for administering planning applications, and those recorded in the s106 monitoring spreadsheet is not carried out (<b>two medium</b>).</li> <li>The level of information provided in the financial reports presented to the IPB s106 sub-group could be improved and the notes of these meetings do not record presentation of the financial report (<b>three medium</b>).</li> <li>A check of the accuracy of CIL calculations is not carried out (<b>medium</b>).</li> <li>The current layout of the s106 monitoring spreadsheet is not conducive to effective and efficient production of the information required for the AIFS (<b>medium</b>).</li> </ul>		<p>The Final Report was issued in March 2021.</p> <p>Two of the medium priority recommendations have been self-certified as complete by management. These recommendations have been evidence checked for implementation.</p> <p>Anomalies identified within the monitoring spreadsheet have been investigated and recorded appropriately.</p> <p>Management have reviewed and discussed the options available for the recording and publication of information required for the AIFS.</p> <p>Internal Audit are continuing to work with the service's management in relation to the implementation of the remaining twelve medium priority recommendations and agreeing revised implementation dates with management. These recommendations will be followed up in accordance with Internal Audit's usual process.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Treasury Management Arrangements	<p>To review whether appropriate internal controls exist within the Authority's treasury management arrangements and the Authority complies with the CIPFA Treasury Management Code of Practice including:</p> <ul style="list-style-type: none"> <li>• The Treasury Management Policy Statement;</li> <li>• Treasury management practices (TMPs);</li> <li>• Risk management, counterparty lists and limits;</li> <li>• Performance measurement and reporting; and</li> <li>• Cash flow management.</li> </ul>	Significant	0	0	2	9
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>In line with the recommendations in the CIPFA TM Code the Authority; has a documented Treasury Management Strategy which is updated annually and presented to Council for approval, and reports performance to Cabinet in a mid-year and annual review. Documented Treasury Management Practices (TMPs) are in place and transactions are fully recorded and authorised in line with the scheme of delegation.</p>		<ul style="list-style-type: none"> <li>• The Authority's TMPs have not been formally approved. The CIPFA TM Code states that TMPs should be subjected to scrutiny by the responsible body following recommendations by the responsible officer <b>(medium)</b>.</li> <li>• The Annual Treasury Management review and Prudential Indicators report did not specifically state that the investments made remained within the limits set in the strategy for non-specified investments in line with the requirements of the Statutory Guidance on Local Government Investments (3<sup>rd</sup> Edition) <b>(medium)</b>.</li> </ul>		<p>The Final Report was issued in November 2020.</p> <p>Both medium priority recommendations have been implemented and were subject to evidence checking.</p> <p>The TMPs were presented to Council for agreement on 18 February 2021.</p> <p>A statement on investments was reported as part of the Mid -year report to full Council and as part of the Financial Planning and Budget Report.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Council Tax	To determine whether the procedures in operation for administration of Council Tax are operating satisfactorily, and in accordance with legislation and Council policy.	Significant	0	0	0	1
<b>Good Practice Highlighted</b>		<b>Main Issues Identified and Priority of Recommendations</b>		<b>Progress Made / Action Taken</b>			
<p>Audit testing identified that for the accounts examined, the Northgate system was updated promptly and accurately following any amendments or actions such as valuation listing amendments, refunds, and debt recovery.</p>		<p>No main issues were identified.</p> <p>Overall, the audit has confirmed that the systems in place for the administration of Council Tax continue to operate effectively.</p> <p>As a result of the Covid-19 pandemic all enforcement action was suspended by Cabinet with effect from 1 April 2020 to 26 October 2020 with no reminders, final notices or summons issued. Therefore, it is unlikely that either the in-year collection or the arrears collection targets will be achieved. This position is fully recognised and being managed by the Authority.</p>		<p>The Final Report was issued in April 2021.</p> <p>As there was only one low priority recommendation made no follow up action is required.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations												
				Critical	High	Medium	Low									
4	Briefing Note - Public Services Network (PSN) Code of Connection (CoCo) Submission 2020	To review the CoCo submission and associated documentation and to confirm to management whether their status was accurately reported.	N/A	N/A	N/A	N/A	N/A									
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken												
<p>Since this review was last undertaken in June 2019, ICT has strengthened the overall ICT control environment in what has been a very challenging year.</p>		<p>The most significant issue in this year's IT Health Check (ITHC) relates to a legacy Windows 2008 Server estate. A project to address the 75 instances is ongoing with almost 50% already resolved. The implementation of the new Citrix environment and migration from OpenText (EDRMS) to Microsoft SharePoint represent the majority of the outstanding Windows 2008 issues left to address.</p> <p>Our review found evidence of progress made on key issues, including the replacement of unsupported platforms and operating systems that were included in remedial action plans in recent years. However, our review concluded the Authority's continued accreditation would, to some extent, be determined by whether the Public Services Network Authority (PSNA) is prepared to accept timescales proposed for addressing the remaining vulnerabilities.</p>		<p>The Briefing Note was issued in December 2020.</p> <p>The reduction in the number of high-risk vulnerabilities in this year's ITHC in comparison to 2019 is demonstrated in the table below:</p> <table border="1" data-bbox="1592 858 2029 1002"> <thead> <tr> <th>Year</th> <th>High Priority Total</th> <th>High Priority Incomplete (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>88</td> <td>38 (43%)</td> </tr> <tr> <td>2020</td> <td>52</td> <td>24 (46%)</td> </tr> </tbody> </table>				Year	High Priority Total	High Priority Incomplete (%)	2019	88	38 (43%)	2020	52	24 (46%)
Year	High Priority Total	High Priority Incomplete (%)														
2019	88	38 (43%)														
2020	52	24 (46%)														

## 5 Evidence Checking

- 5.1 Internal Audit reports issued during the period November 2020 to May 2021 included sixteen medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these sixteen, four recommendations, having passed their target date, were evidence checked and can be confirmed as implemented. The remaining twelve relate to the Section 106 and Community Infrastructure Levy audit. Internal Audit are continuing to work with the service's management in relation to the implementation of these recommendations and are agreeing revised implementation dates for these recommendations. Progress on the implementation of these recommendations will be reported as part of our next Key Outcomes report scheduled for November 2021.
- 5.2 Of the thirteen recommendations reported in the November 2020 Key Outcomes Report as either outstanding or having not passed their implementation dates, two have now been subject to evidence checking and details are provided in the table below. Four recommendations in relation to the Cash & Bank audit are unable to be evidence checked at this juncture due to Covid-19 as a site visit would be required and these will be incorporated into a future audit of the Cash & Bank system. Three recommendations have not yet reached their target date, and revised target dates have been agreed for the remaining four. All outstanding recommendations will be followed up in due course and details reported to a future Audit Committee meeting.

Audit	Issue Identified	Details of Evidence Check
PCI DSS	Several file shares relating to a specific system were identified which did not have the necessary access restricted to system administrators	All file shares have now been hidden and the ability for everyone to view these has been removed.
Accuserv	There is a lack of documentation handed over from the supplier to support system upgrades. This makes it unclear to the Housing Property and Construction (HPC) team what changes and testing have been completed.	The HPC team now receive adequate documentation prior to making system upgrades.

5.3 A summary of results from the evidence checking exercises is included within the table below:

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action	
		No.	%	No.	%
Critical	Not Applicable	N/A	N/A	N/A	N/A
High	Not Applicable	N/A	N/A	N/A	N/A
Medium	6	6	100	0	0
Total	6	6	100	0	0

## 6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
<b>Covid-19 Business Grants Schemes:</b>	<ul style="list-style-type: none"> <li>○ <b>Programme Assurance</b> – continued to provide advice and guidance to colleagues across the Authority as they established new systems to enable the Authority to make payments, from a range of government grant schemes, in accordance with government conditions and as quickly and securely as possible. Across the full 2020/21 financial year payments of around £54m have been made to over 3,000 businesses.</li> <li>○ <b>Pre and Post Payment Assurance</b> – undertaking and advising on a range pre and post payment assurance activities including utilising the governments ‘Spotlight’ due diligence tool. As part of the government’s requirements, a number of grant scheme risk assessments, assurance plans and government returns on post payment activity have been completed.</li> <li>○ <b>Investigating and responding to any potentially fraudulent payments identified</b> – this has included the Acting Chief Internal Auditor acting as the Authority’s ‘Single Point of Contact’ with the Department for Business, Energy and Industrial Strategy, National Anti-Fraud Network, National Investigation Service (NATIS), Government Grants Management Function and Counter Fraud Function and UK banking industry entities.</li> </ul>
<b>Covid-19 Compliance and Enforcement Grant Certification</b>	The purpose of the grant was to provide support towards expenditure lawfully incurred in relation to Covid-19 related enforcement and compliance activity. The grant claim was certified to the value of £0.106m.
<b>Covid-19 Home to School Transport Additional Funding Grant Certification</b>	The purpose of the grant was to provide support to local transport authorities towards expenditure lawfully incurred or to be incurred by them in respect of the provision of the addition transport capacity for both Home to School and FE colleges. The grant claim was certified to the value of £0.0749m
<b>Covid-19 Travel Demand Management Top Up Grant</b>	The purpose of the grant was to provide support to local authorities on expenditure incurred in relation to additional travel demand management activities. The grant claim was certified to the value of £0.03m
<b>Covid-19 - Public Health Payments to medical practices in lieu of delivering Health Check service</b>	Covid Support Payments to Pharmacists and GPs – Public Health have been making supplier relief payments throughout 2020/21 and Internal Audit have been providing assurance over the systems and procedures developed in relation to implementing guaranteed minimum payments to these service providers. Internal Audit have provided assurance over payments with a combined value of £0.184m

Area of Work	Summary of Work Undertaken
<b>North Bank of Tyne</b>	The Authority identified the North Bank of Tyne area, as an area for focus. The aim of the grant was to provide the resolution to significant road transport barriers and thus facilitate employment growth critical to development of the area. The grant claim was certified for £4.472m
<b>Troubled Families Grant Certification</b>	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. December 2020 Claim certification work complete, value £0.0624m. March 2021 claim certification work complete, value £0.047m.
<b>Participation in the Cabinet Office's National Fraud Initiative</b>	North Tyneside Council participates in the National Fraud Initiative data matching exercise to assist in the prevention and detection of fraud and are required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise. Internal Audit commenced collection of data sets in October 2020 for the Annual Council Tax Discounts exercise, and uploaded these by the required deadline in December 2020. An additional data set as part of the counter fraud response to the government Covid-19 relief programme (Business Grants), was introduced, and was uploaded by the January 2021 deadline following consultation with colleagues in the relevant services.
<b>Support to Project Boards / Working Groups</b>	<p>Internal Audit has supported the following project boards / working groups during the period under review in a programme assurance role:</p> <ul style="list-style-type: none"> <li>• ICT Operations Advisory Board;</li> <li>• Catering New Schools Meals Payment System;</li> <li>• Social Care Payment System initiatives (Adults' and Children's);</li> <li>• Office 365 Project Board;</li> <li>• Unified Project (replacement system for housing and building repairs); and</li> <li>• Information Governance and Security Group.</li> </ul>