



**North Tyneside Council**

# Audit Committee

17 May 2022

**Wednesday, 25 May 2022** 0.02 Chamber - Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY **commencing at 7.00 pm.**

<b>Agenda Item</b>	<b>Page</b>
<b>1. Apologies for Absence</b>	
To receive apologies for absence from the meeting.	
<b>2. Appointment of Substitute Members</b>	
To be notified of the appointment of any Substitute Members.	
<b>3. Declarations of Interest and Notifications of any Dispensations Granted</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 interests that have been granted to you 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 Services Officer before leaving the meeting.	
<b>4. Minutes</b>	<b>5 - 10</b>
To confirm the minutes of the meeting held on 23 March 2022.	
<b>5. Annual Statement of Accounts 2021/22</b>	<b>11 - 14</b>
To give consideration to a report which provides an update on the closure of the 2021/22 accounts.	

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.

<b>Agenda Item</b>	<b>Page</b>
6. <b>2021/22 Opinion on the Framework of Governance, Risk Management and Control</b>	<b>15 - 36</b>
To give consideration to a report which provides the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.	
7. <b>Key Outcomes from Internal Audit Reports issued between November 2021 and May 2022</b>	<b>37 - 52</b>
To give consideration to a report which provides the key outcomes of internal audit reports issued between November 2021 and May 2022.	
8. <b>Exclusion Resolution</b>	
The Committee will be requested to pass the following resolution:	
Resolved that under Section 100A 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 Paragraphs 3 and 7 of Part 1 of Schedule 12A to the Act.	
9. <b>Corporate Risk Management Summary Report</b>	<b>53 - 114</b>
To give consideration to a report on the latest position in relation to corporate risks reported to Cabinet.	
10. <b>Counter Fraud Annual Report 2021-22</b>	<b>115 - 126</b>
To give consideration to a report on the Counter Fraud work undertaken between 1 April 2021 and 31 March 2022.	
11. <b>Strategic Audit Plan 2021/22 - Final Monitoring Statement</b>	<b>127 - 138</b>
To give consideration to a report which sets out the final monitoring statement of the Strategic Audit Plan for 2021/22.	

**Circulation overleaf ...**

**Members of the Audit Committee**

Kevin Robinson (Chair)

Malcolm Wilkinson (Deputy Chair)

Councillors to be confirmed

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## Audit Committee

**Wednesday, 23 March 2022**

Present: K Robinson (Chair)  
M Wilkinson  
Councillors M Wilkinson, D Cox, L Arkley, G Bell, L Bell  
and J O'Shea

### **AC/32/21 Apologies for Absence**

An apology for absence was submitted on behalf of Councillor J Mole.

### **AC/33/21 Declarations of Interest and Dispensations**

There were no declarations of interest or dispensations reported.

### **AC/34/21 Minutes**

**Resolved** that the minutes of the meeting held on 17 November 2021 be confirmed as a correct record and signed by the Chair.

### **AC/35/21 Audit Planning Report 2021/22**

The Committee was presented with the provisional Audit Planning Report for the year ending 31 March 2021. The report set out how the external auditor intended to carry out the audit of the Authority. It was explained that the plan summarised the initial assessment of the key risks that would drive the development of an effective audit of the Authority and set out the planned strategies in response to those risks. The report also covered a number of other aspects of the audit which included the arrangements for ensuring value for money, the various levels of materiality in the audit and the group audit of the trading companies.

Reference was made to the work undertaken in relation to the identification of fraud in respect of grant funding. It was explained that the Authority has processes and systems in place to deal with potential fraudulent activity. Reference was made to the work undertaken with the internal audit section in relation to the checks and balances in place for the issue of the grant funding. It was also explained that there had been significant pre and post assurance checks carried out.

Reference was made to the new risk identified in relation to the financial statement close process and the delay in the completion of the last year's audit. It was explained that discussions had taken place with management as items posted outside of the ledgers caused additional work and therefore incurred additional costs. It was also explained that there had been delays in completing audits nationally and it was not specifically an issue in North Tyneside.

**Resolved** that the report be noted

**AC/36/21 Auditor's Annual Report for the year ended 31 March 2021**

The Committee was presented with the External Auditor's annual report for the year ended 31 March 2021 which set out that the Authority's financial statements gave a true and fair view of the financial position of the Council as at 31 March 2021. It was also explained that the auditor had not yet issued a certificate that the audit had been completed in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice as the procedures required by the National Audit Office on the Whole of Government Accounts submission had not yet been performed and guidance for 2020/21 had been delayed.

**Resolved** that the report be noted

**AC/37/21 Accounting Policies to be used in the compilation of the 2021/22 Annual Statement of Accounts**

Consideration was given to a report which set out the proposed Accounting Policies to be used in the completion of the 2021/22 Annual Statement of Accounts. It was explained that the purpose of the Accounting Policies was to set out the basis for the recognition, measurement and disclosure of transactions and other events in the accounts of 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 1 April 2021 to 31 March 2022.

**AC/38/21 Annual Statement of Accounts 2021/22**

Consideration was given to a report which provided an update on the closure of the 2021/22 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 2022 no later than the 31 July 2022 and for the audited set of accounts to be approved and published no later than 30 November 2022.

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 it was intended to be able to publish a draft Statement Accounts by 31 May 2022 subject to there being no unforeseen events occurring which impacted on this.

It was noted that group accounts would continue to be required for 2021/22 as the anticipated balance sheet value of the North Tyneside Trading Company would be material to the Authority's statutory accounts due to the Authority being the main equity holder in the company.

**Resolved** that the work outlined in respect of the closure of the 2021/22 Accounts be noted.

## **AC/39/21      Review of Audit Committee Effectiveness**

Consideration was given to a report which presented a self-assessment of the Audit Committee arrangements.

The self-assessment undertaken in March 2022 had built on the assessment carried out in 2020/21 and demonstrated that the Audit Committee arrangements reflected the good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

It was noted that the areas for development previously identified had been implemented during the current financial year.

Reference was made to the small number of items in the self-assessment which had been marked as only partially met and Members queried what needed to be done to enable them to be recorded as fully met. It was explained that in relation to requirement for the Committee to report directly to Full Council that the Audit Committee Annual Report had been presented to Cabinet and that arrangements were in place for this to continue. It was acknowledged that whilst the role and purpose of the Audit Committee was clearly understood by the Members of the Committee this was not always the case across the Authority and the presentation of the Annual Report had gone some way towards rectifying the situation. It was also reported that further work would be undertaken with the Senior Leadership Team. The Chair also had regular meetings with the Chief Executive and other Senior Officers.

Reference was also made to the core knowledge and skills framework of the Members of the Committee. It was noted that the framework had been discussed with the Members of the Committee as part of the review undertaken in 2019/20 and that no issues had been identified.

**Resolved** that (1) the self-assessment of the Audit Committee arrangements be endorsed; (2) the actions taken since the previous review be noted; (3) the updated self-assessment form the basis of the Annual Report of the Committee to Cabinet.

## **AC/40/21      Proposed Audit Committee Work Programme 2022/23**

Consideration was given to a report which presented a proposed programme of core business to be considered by the Committee during 2022/23 in line with the Committee's terms of reference. It was suggested that the proposed work programme, set out below, would allow the Committee to discharge its duties effectively 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 arose during the course of the year.

### **May 2022**

- Annual report from Chief Internal Auditor and opinion on the Framework of Governance, Risk Management and Control;

- Final Outturn Report;
- Key Outcomes from Internal Audit Reports;
- Risk Management update
- Counter Fraud Annual Report
- Draft Statement of Accounts 202/22
- Draft Annual Governance Statement
- External Audit Progress Report

### July 2022

- CIPFA Financial Management Code

### November 2022

- Interim Outturn Report
- Key Outcomes from Internal Audit Reports
- Risk Management Update
- Final Statement of Accounts
- Annual Governance Statement
- External Audit Results Report

### March 2023

- Strategic Audit Plan
- Annual Audit Committee Work Programme
- Annual Review of Audit Committee Effectiveness
- Report on the Accounting Policies to be used in the compilation of the Annual Statement of Accounts
- Report on the preparation of the Annual Statement of Accounts 2022/23
- External Audit Planning Report 2022/23
- External Audit Annual Report 2021/22

**Resolved** that (1) the proposed core business work programme be agreed;  
(2) the need to change or adapt the reports to be considered to ensure optimum timing for governance issues or to respond to emerging trends be noted; and  
(3) it be noted that additional Ad-hoc reports may be presented to the Committee.

### AC/41/21 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/42/21 Strategic Audit Plan 2022/23**

Consideration was given to a report which set out the Strategic Audit Plan for 2022/23. It was explained that the 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 and had been developed in consultation with the Chief Executive and Directors of the Authority.

Officers responded to a series of Members' questions on the contents of the report.

**Resolved** that (1) the Strategic Audit Plan and the proposed internal audit coverage be approved; and  
(2) it be noted that the prevailing risks and the impact on assurance needed would continue to be kept under review.

**AC/43/21 Corporate Risk Management Summary Report**

The Chair had agreed that this item could be included on the agenda for this meeting as a matter of urgency as the contents of the report formed the basis on which the internal audit plan had been developed and it was appropriate that the Committee had knowledge of the contents of the report to enable it to approve the Strategic Audit Plan 2022/23 elsewhere on the agenda.

Consideration was given to a report which outlined the corporate risks that had been identified for monitoring and management by the Authority's Senior Leadership Team as of 13 October 2021. 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 together with the controls in place to address those risks.

Clarification was sought in relation to one of the risks identified and it was suggested that the risk owner be requested to provide an update to be circulated to Members of the Committee so that they could better understand the risk.

**Resolved** that the review of the key corporate risks undertaken by the Senior Leadership Team and endorsed by Cabinet as part of the Authority's risk management arrangements be noted.

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## North Tyneside Council Report to Audit Committee Date: 25 May 2022

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**Report from Service:** Finance

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

**Wards affected:** All

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### PART 1

#### 1.1 Executive Summary:

1.1.1 The purpose of this report is to provide the Audit Committee with an update in respect of the closure of the 2021/22 accounts.

#### 1.2 Recommendation(s):

1.2.1 It is recommended that the:

- (a) Audit Committee note the work outlined in respect of the closure of the 2021/22 accounts.

#### 1.3 Council plan and policy framework:

1.3.1 The Annual Statement of Accounts covers all the service responsibilities as identified within the Council Plan.

#### 1.4 Information:

1.4.1 The Chief Finance Officer is required, no later than 31 July 2022, to sign and certify that the draft Statement of Accounts present a true and fair view of the Authority's financial position for the year ended 31 March 2022. The audited set of accounts is required, no later than 30 November 2022, to be approved and subsequently published.

#### **Update on the preparation of the 2021/22 Annual Statement of Accounts**

1.4.2 The Committee will recall that in the 22 March report on the preparation of the accounts for 2021/22 we were working towards a deadline of the end of May for a draft set of accounts to be available. This deadline has now been revised to the end of June for the draft accounts, this is still within the statutory reporting deadline outlined in section 1.4.1 above. A number of factors have impacted on the deadline being slipped which are outlined in the following paragraphs.

- 1.4.3 There has been a delay in the receipt of service lead debtors and creditors (accruals) due to the impact of the Easter break which resulted in deadlines slipping. Delays were also experienced in receiving information from schools.
- 1.4.4 COVID-19 grant funded areas of the accounts have taken longer than anticipated to work through due to the volume of transactions and ensuring that grant funding is applied correctly in accordance with the Accounting Code of Practice.
- 1.4.5 There have been delays in receipt of information from central government, for example NDR3 (business rates) was received after the anticipated deadline.
- 1.4.6 The impact of the slippage has meant a delay in producing the outturn for 2021/22 which in turn has led to delays in producing the draft accounts as all transactions need to be in the General Ledger before the main financial statements can be started. Despite this a number of the standalone notes to the accounts have been completed, for example leasing, pensions, officers' remuneration, long-term investments with others underway.
- 1.4.7 Going forward lessons will be learnt from the issues that have been encountered to ensure that they are not repeated.

## **1.5 Decision options:**

- 1.5.1 The Audit Committee can agree to endorse the recommendations as set out in Section 1.2 of this report. Alternatively, the Audit Committee can decline to endorse the proposals and require further details and amendment.

## **1.6 Reasons for recommended option:**

- 1.6.1 The Audit Committee is recommended to endorse the proposals set out in section 1.2 of this report as the production Audited Annual Statement of Accounts is a requirement of the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021.

## **1.7 Appendices:**

None.

## **1.8 Contact officers:**

Janice Gillespie – Director of Resources - Tel: 643 5701

Claire Emmerson – Senior Manager, Financial Strategy & Planning – Tel 643 8109

Peter Weir – Principal Accountant – Tel 643 8066

## **1.9 Background information:**

- 1.9.1 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) Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021.

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

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

### **2.2 Legal**

2.2.1 The Authority has a duty to ensure that it produces a draft Annual Statement of Accounts by 31 July 2022 in accordance with the Accounts and Audit (Amendment) Regulations 2021.

### **2.3 Consultation/community engagement**

2.3.1 Consultation will take place with the key personnel and interested parties involved in the closedown process.

### **2.4 Human rights**

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

### **2.5 Equalities and diversity**

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

### **2.6 Risk management**

2.6.1 A risk log has been set up which identifies the key risks and issues associated with the closedown process. The management of these risks are part of the overall process.

### **2.7 Crime and disorder**

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

### **2.8 Environment and sustainability**

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

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## North Tyneside Council Report to Audit Committee Date: 25 May 2022

Title: 2021/22 Opinion on the Framework of Governance, Risk Management and Control

Report from Service Area: Resources

Report Author: Richard Dunlop, Interim 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 2021/22 'satisfactory' opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control.

#### 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 2021/22

- 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 2021/22 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 Director of Resources (Chief Finance Officer).

## 1.5 Decision Options:

It is recommended that the Audit Committee:

- (a) notes the 2021/22 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control; and
- (b) considers this opinion as a strand of assurance when receiving the Annual Governance Statement 2021/22.

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:** 2021/22 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 7a, June 2021 (P) [Financial Regulations](#)
- (e) Strategic Audit Plan 2021/22, 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 2021/22 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 2021/22. 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**     Richard Dunlop

# **Internal Audit Service**

## **2021/22 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control**

**May 2022**



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6	Schools' Financial Value Standard
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10	Clients' Views and Quality Assessment and Improvement Programme
11	Annual Governance Statement 2021/22
Annex A	Internal Audit reports issued during 2021/22
Annex B	Overall Results from Client Feedback Forms 2021/22

## Executive Summary

Overall, Internal Audit work performed in the financial year 2021/22 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 which started in March 2020 continued to impact the Authority's risk profile and operations during 2021/22. Although a time budget was established in the Audit Plan to support the Authority's response to Coronavirus during 2021/22, the budget was exceeded. This required Internal Audit's planned coverage during 2021/22 to flex and change accordingly, to reflect the emerging risks faced by the Authority.

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 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 can 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 7a (June 2021), 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. To meet 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 2021/22. 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 undertaken during 2021/22, 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 two 'limited 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. Some planned internal audit work is in the process of being finalised and agreed with management. The details of these audits will be reported in the Key Outcomes Report November 2022.
- 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 2021/22, 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. As reported previously, the Coronavirus pandemic has brought about a number of significant changes nationally, since the end of the 2019/20 financial year, 2020/21 and throughout 2021/22. 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.
- 3.8 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 2022/23 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 2021/22**

- 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. The disaggregation of the Northumberland / North Tyneside Council Shared Internal Audit and Risk Management service in early 2022/23 provides risks and opportunities in structuring the team for the future. It is expected that a revised structure and further recruitment will be take place in H1 of 2022/23.

## **5 Internal Audit Work Performed During 2021/22**

- 5.1 Internal Audit has provided an audit, advice, and programme assurance service to the Authority in 2021/22. 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 2021/22, 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 2021/22 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 2021/22 audit year, classified against each priority, is provided in the table below (data from the previous four years is also shown for comparison):

	2017/18	2018/19	2019/20	2020/21	2021/22
Critical Priority	Nil	Nil	Nil	Nil	Nil
High Priority	2 (1%)	Nil	3 (2%)	Nil	Nil
Medium Priority	51 (38%)	37 (28%)	52 (32%)	35 (41%)	28 (40%)
Low Priority	82 (61%)	94 (72%)	107 (66%)	51 (59%)	42 (60%)
TOTAL	135 (100%)	131 (100%)	162 (100%)	86 (100%)	70 (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 2021/22

5.8 This section of the report is designed to draw attention to significant audits and findings from Internal Audit in the 2021/22 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 six reviews achieved assurance of 'significant':

- The Security Incident Event Management (SIEM)
- Schools Meals Systems Review

- Business Rates
- Cash and Bank
- Perimeter Security, and
- Data Analytics and Business Intelligence

These systems and processes protect the resources of the Authority and each area demonstrated areas of good practice. A number of medium and low recommendations were made which have been followed up where the target dates have passed.

5.10 Two reviews drew “limited” assurance’ opinions. These were Hardware and Software Management, and the Debt and Income Management reviews. Eight medium recommendations were made in the Hardware and Software audit, of which five are evidenced as implemented, with the remaining three having not reached the agreed target dates for implementation. The Debt and Income Management Review highlighted that the pandemic restrictions had a significant impact on this service, which has led to previous recommendations not being fully implemented.

5.11 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, during 2021/22 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 2021/22 included supporting:

- a) Covid-19 Business Grant Funding
- b) Procurement Arrangements
- c) Strategic approach to planning and link to 4-year Medium Term Financial Plan
- d) Equality Impact Assessment processes
- e) Anti-social behaviour system replacement
- f) Car parking system update / replacement
- g) Unified project - housing & property maintenance / repairs system replacement
- h) Social care payment system initiatives (Adult’s and Children’s)
- i) ICT Information & governance security group
- j) Catering new school meals payment system
- k) Energy Bills Rebate

5.12 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 c£13m grant funding.

- 5.13 Wherever possible, Internal Audit has sought to leverage shared learning through our shared service partnership with Northumberland County Council. Revised learning arrangements are being considered for the ongoing North Tyneside Council internal audit service.

## **6 Schools' Financial Value Standard**

- 6.1 Time was included in the audit plan for 2021/22 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 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 submitted their self-assessments by the deadline of 31 March 2022. The annual Assurance Statement will be completed and submitted to the DfE by the deadline of 31 May 2022.

## **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 2021/22. 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:
- petty cash procedural review
  - card refund processes
  - procurement procedures
  - 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 in particular management and supervisory controls (see paragraph 2.3).

- 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 2021/22 has resulted in the realisation of £0.049m in directly cashable savings and £0.673m 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. Before this information can be provided, the Authority is required to take appropriate steps to notify data subjects that data held in the organisation's relevant information systems 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 2021/22 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 since November 2020, 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 Ad-hoc queries and requests have been received throughout the year and advice and guidance has been provided. Throughout 2021/22 this has included continuing support for items of work that emerged from the response to Coronavirus pandemic. This has included certification of a number of additional grants received by the Authority.

## **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 have been 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 2021/22 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 2021/22 was 1.4 which is positive.
- 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 our reporting framework, consider implementing audit software and restructure the team following the end of the shared service.
- 10.4 The full results for 2021/22 are shown at **Annex B**.

## 11 Annual Governance Statement 2021/22

- 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 2021/22 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 2021/22 were found to bear appropriate internal controls and to be operating satisfactorily.

**IA/RD**  
**May 2022**



**Annex A:****Formal Audit Reports and Briefing Notes issued during 2021/22**

<u>Audit:</u>	<u>Opinion:</u>
Security Incident Event Management (SIEM)	Significant
Hardware and Software	Limited
School Meals System Review	Significant
Debt and Income Management	Limited
Business Rates	Significant
Housing Rent Assessment	N/A
Cash and Bank	Significant
Perimeter Security	Significant
Data Analytics and Business Intelligence	Significant
Tyne Port Health Authority Return	N/A
Purchase Card Procedural Developments	N/A

**Reports Pending from 2021/22 (draft report issued, awaiting issue as final report)**

<u>Audit:</u>
Information Governance / GDPR
Payroll
Telecommunications Management

**Reports from 2021/22 substantially complete and currently going through the internal quality assurance process before the draft is issued**

<u>Audit:</u>
Remote Access Systems
Incident and Change Management
Helpdesk System
Schools Thematic Reviews

**Grant Claim Certification**

- Local Transport Plan - £3.15m
- TCF (Transforming Cities Fund) Tyne View Terrace (highways improvements) - £0.43m
- TCF Northumberland Park to Cobalt (highways improvements) - £0.29m
- LGF (Local Growth Fund) A1056 Weetslade - £4.33m
- Troubled Families – £0.23m
- Covid19 Sales, Fees and Charges - (procedural review)
- Covid19 Additional Home to School Transport - three claims totalling £0.3m
- Covid19 Travel Demand Management - £0.03m
- Covid19 Compliance & Enforcement (Addnl) - £0.10m
- Tanners Bank Challenge Fund - £3.62m
- Digital Inclusion Project (NTCA Investment Fund) - £0.13m
- LGF Swans Enterprise Zone Demolition (plot 6) - £0.01m
- North Shields Masterplan (NTCA Investment Fund) - £0.25m

## **Project Boards / Working Groups**

Internal Audit has also supported the following Project Boards / Working Groups during 2021/22 in a programme assurance role:

- Covid-19 Business Grant Funding
- Procurement Arrangements
- Strategic approach to planning and link to 4-year Medium Term Financial Plan
- Equality Impact Assessment processes
- Anti-social behaviour system replacement
- Car parking system update / replacement
- Unified project - housing & property maintenance / repairs system replacement
- Social care payment system initiatives (Adult's and Children's)
- ICT Information & governance security group
- Catering new school meals payment system
- Energy Bills Rebate

## **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 2021/22**

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	1.71
• With the explanation provided of the audit process	1.29
• With the areas of coverage from the audit	1.43
• That your requirements were reflected by the audit	1.36
<b>AUDIT APPROACH</b>	
• Attitude and professionalism of the auditor	1.14
• Auditor's knowledge and understanding of auditee's operational requirements	1.64
• Communication skills of the auditor	1.29
• Being kept informed of audit progress, including consultation on findings and likely recommendations	1.57
<b>REPORTING ARRANGEMENTS</b>	
• With the arrangements for consultation on the draft report	1.43
• With the accuracy and materiality of the report findings	1.57
• With the usefulness and practicality of the conclusion and recommendations in the report	1.50
• With the clarity of the report	1.50
• With the format and presentation of the report	1.43
• The time taken to receive the report following the audit visit	1.64
<b>OVERALL OPINION</b>	
• That the audit was constructive and useful	<b>1.43</b>

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## North Tyneside Council Report to Audit Committee Date: 25 May 2022

Title: Key Outcomes from  
Internal Audit reports Issued  
between November 2021 and  
May 2022

Report from Service Area: Resources

Report Author: Richard Dunlop, Interim 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 the key outcomes from Internal Audit reports issued between November 2021 and May 2022 (**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.

#### 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 2021 and May 2022*

- 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 provides oversight of emerging risks and governance themes as these arise during the year, in accordance with Public Sector Internal Audit Standards (PSIAS).
- 1.4.2 A summary of key outcomes from planned Internal Audit reports issued between November 2021 and May 2022, 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 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 2021 and May 2022

## **1.8 Contact officers:**

Richard Dunlop (Interim Chief Internal Auditor) Tel: 0191 643 5738  
Marc Oldham (Acting Group Assurance Manager) Tel: 0191 643 5711

## **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 \(CIPFA\) / Institute of Internal Auditors \(IIA\), April 2017 \(P\)](#)
- (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, CIPFA / IIA (P)
- (c) [Financial Regulations, version 7a, June 2021 \(P\)](#)
- (d) [Internal Audit Charter, July 2020 \(P\)](#)
- (e) Strategic Audit Plan 2020/21, July 2020 (C)
- (f) Strategic Audit Plan 2021/22, March 2021 (P)
- (g) Internal Audit Reports & Work Completed for the 2021/22 financial year (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**     Richard Dunlop  
                                 Marc Oldham

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## **Internal Audit Service**

# **Key Outcomes from Internal Audit Reports Issued Between November 2021 and May 2022**

**May 2022**



# 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 2021 – May 2022. 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 the 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 small 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 Providing regular reports on key outcomes from Internal Audit's work 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 framework. 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 three audit reports are presented. All three reports received a 'significant opinion'. No 'critical' or 'high' priority recommendations were made. These reports are detailed in Section 4 below. Due to continued work on Business Grants (necessitated by Coronavirus pandemic) and the reprioritising of Internal Audit resources some 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 and pre-

emptive 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 Internal Audit has continued to be heavily deployed in assurance work necessitated by the Coronavirus pandemic. This has involved project assurance and advice on controls during development of systems related to a number of business grant funding streams, and more recently on the Energy Bills Rebate. Internal Audit has also been involved in post payment assurance and counter fraud elements of the pandemic response, in addition to the certification of a number of related 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/RD/MO  
May 2022

## 4 Main Outcomes – Audit Reports Issued During the Period November 2021 to May 2022

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Cash and Bank	The objective of the audit was to provide assurance to the Authority over the controls in the Cash and Bank processes including receipting, reconciliation and banking.	Significant	0	0	0	7
<b>Good Practice Highlighted</b>		<b>Main Issues Identified and Priority of Recommendations</b>		<b>Progress Made / Action Taken</b>			
There were a number of areas of good practice identified including: <ul style="list-style-type: none"> <li>• Comprehensive income management procedures were in place</li> <li>• Detailed reconciliation processes to ensure income transfers from source to destination</li> </ul> Independent detailed reconciliation between bank account and general ledger		No key matters arising were identified.		The Final Report was issued in December 2021.  Management has self-certified that all recommendations where the target date has passed have been implemented, and progress is being made on the remaining recommendations.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Perimeter Security	To provide an opinion to management on the effectiveness of the systems of internal control in place in relation to the Authority's arrangements to protect its computer infrastructure.	Significant	0	0	4	2
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>A number of areas of good practice over physical, network and malware controls were identified including:</p> <ul style="list-style-type: none"> <li>Independent penetration testing and vulnerability scans</li> <li>Only corporate devices can join the network, and USB (universal serial bus) devices are blocked unless previously approved by ICT</li> <li>Devices are configured to check for new virus definitions multiple times a day</li> </ul>		<ul style="list-style-type: none"> <li>Changes to firewall rules had been implemented before they were approved through the change management system. <b>(Medium)</b></li> <li>Testing had not been undertaken to ensure that Firewalls could be restored from backups in the event of failure. <b>(Medium)</b></li> <li>Active Directory accounts with elevated permissions are only reviewed every three months meaning that any inappropriate accounts may not be identified promptly. <b>(Medium)</b></li> <li>Windows update to SQL Servers were not always applied promptly. <b>(Medium)</b></li> </ul>		<p>The Final Report was issued in December 2021.</p> <p>Procedures to ensure that changes to firewall rules are now approved in advance have been implemented.</p> <p>In respect of Windows updates, management confirmed that regular monitoring reports are run to ensure that patches are applied promptly.</p> <p>Internal Audit has confirmed the implementation of two of the four recommendations (details noted above), and have agreed revised target dates for implementation of the remaining two.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Data Analytics and Business Intelligence	To determine whether the Authority has a clear strategy in the use of its data analytic and business intelligence tools. To further determine whether the Authority is maximising its use of such tools across its service areas and business systems to achieve value for money.	Significant	0	0	2	7
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>A number of areas of good practice relating to use of Alteryx software, including:</p> <ul style="list-style-type: none"> <li>Improved collation of data from multiple stakeholders to assist with the Supporting Families programme</li> <li>Good quality management information for Children's Services, and which was praised by Ofsted during inspection</li> <li>Provision of management information and dashboards to support for the Authority's covid response.</li> </ul>		<ul style="list-style-type: none"> <li>The Digital Strategy and Data Analytics Policy lack detail on how the Authority can maximise its use of data analytics tools. <b>(Medium)</b></li> <li>There are a number of data analytic and business intelligence tools across the Authority which provide similar functionality. A number of the business systems which utilise these tools are reaching the end of their contracts, which may provide an opportunity to consolidate the analytic tools in use. <b>(Medium)</b></li> </ul>		<p>The Final Report was issued in December 2021.</p> <p>Management has confirmed that progress is being made in respect of the Strategy and Policy, and a revised target date has been agreed. The review of the business intelligence tools has been completed in accordance with the recommendation.</p>			

## 5 Evidence Checking

- 5.1 Internal Audit reports issued during the period November 2021 to May 2022 included six medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these six, three recommendations, having passed their target date, were evidence checked and can be confirmed as implemented. The remaining three relate to the Perimeter Security, and Data Analytics & Business Intelligence audits. Internal Audit are continuing to work with the service's management in relation to the implementation of these recommendations, which are within revised target dates. Progress on the implementation of these recommendations will be reported as part of our next Key Outcomes report scheduled for November 2022.
- 5.2 Of the fourteen recommendations reported in the November 2021 Key Outcomes Report as either outstanding or having not passed their implementation dates, three have now been subject to evidence checking and details are provided in the table below. Seven recommendations have not yet reached their target date, and revised target dates have been agreed for the remaining four. All outstanding recommendations will continue to be followed up and details reported to a future Audit Committee meeting.

Audit	Issue Identified	Details of Evidence Check
Hardware and Software	Three end-user devices running Windows 7 and numerous servers running Microsoft Server 2008 were identified. Both operating systems extended support were end of life as of 14 January 2020	Two recommendations to address these issues were made. The evidence check has confirmed that all Laptops are now running on the correct operating system and all 2008 servers have been removed from the network.
Debt and Income Management	There are no monthly management reports produced which list debts that are unenforceable and are referred back from the central debtors team to the service areas for action.	The evidence check confirmed that a procedure has been introduced to document any such invoices. The document is shared by the central debtors team with the Client Manager and Director of Resources for action where necessary.



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, Grant Certification and Other Work Undertaken

Area of Work	Summary of Work Undertaken
<b>Purchase Card Procedural Developments – Programme Assurance</b>	Advice and guidance was provided to the Procurement Service as they undertook a review and developed existing Purchase Card procedures. A briefing note was issued to the clients and set out some additional areas for Procurement to consider as part of their development work. The work also identified that a corporate Amazon account had been established which consolidated a number of accounts and therefore provided the Authority with savings.
<b>Covid-19 Business Grants Schemes:</b>	<p><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 in relation to a number of schemes (Restart, Omicron Hospitality &amp; Leisure and Additional Restrictions), in accordance with government conditions and as quickly and securely as possible. Payments of c£14m have been made across the full 2021/22 financial year.</p> <p><b>Pre and Post Payment Assurance</b> – undertaking and advising on a range of pre and post payment assurance activities including utilising the Government’s ‘Spotlight’ and other due diligence tools. This has included advice and guidance on the payment assurance returns made to government.</p>
<b>Covid-19 Compliance and Enforcement Grant – Additional 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 £0.107m.
<b>Digital Inclusion Grant Certification</b>	The purpose of this grant was to provide support to residents who, due to the impact of Covid-19, found themselves digitally excluded and unable to afford connectivity. The grant was certified to the value of £0.13m.
<b>School-Centred Initial Teacher Training (SCITT) – Briefing Note</b>	The purpose of the briefing note was to provide a short summary to the finance committee setting out the controls governing expenditure, and the level of compliance.
<b>Swans Enterprise Zone (Plot 6) Demolition Works and Asbestos Removal Grant Certification</b>	The purpose of this grant was to provide financial support for the development of the Swans Enterprise Zone. The grant was certified to the value of £0.01m
<b>North Shields Masterplan and Business Case Development Grant Certification</b>	The purpose of this grant was to provide financial support to fund a masterplan and business case development for regeneration of the town. The grant was certified to the value of £0.25m

Area of Work	Summary of Work Undertaken
<b>Supporting Families Grant Certification</b>	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. December 2021 Claim certification work complete, value £0.051m. March 2022 claim certification work complete, value £0.083m.
<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 2021 for the Annual Council Tax Discounts exercise and uploaded these by the required deadline in December 2021. 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 2022 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>• Social Care Payment System initiatives (Adults' and Childrens')</li> <li>• Energy Bills Rebate</li> <li>• Procurement Arrangements</li> <li>• Equality Impact Assessment Processes</li> <li>• Unified Project (replacement system for housing and building repairs); and</li> <li>• Information Governance and Security Group.</li> </ul>

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