

Internal Audit Service

Key Outcomes from Internal Audit Work Undertaken Between May 2022 and October 2022

November 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 May 2022 to October 2022. The Interim Monitoring report provides a fuller summary of completed audits, those whereby reports have been issued in draft and are awaiting management responses, and those audits planned for the remainder of the year.
- 2.2 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 the majority 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.
- 2.3 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.
- 2.4 In this report, details of eight audit reports are presented. Five reports received a 'significant' assurance opinion, and three received a 'limited' assurance opinion. Only one 'high' priority recommendation was made. These reports are detailed in Section 4 below. A further seven reports are at draft stage and will be presented in the next Key Outcomes Report.
- 2.5 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems,

Internal Audit has a significant and increasing role in advising on new systems within the Authority. 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.

- 2.6 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
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4 Main Outcomes – Audit Reports Issued During the Period May 2022 to October 2022

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Information Governance	To establish if there are sufficient policies and procedures in place to provide assurance that the Authority complies with the Data Protection Act 2018, General Data Protection Regulation (GDPR) 2016/679 and the Freedom of Information Act 2000. To revisit the findings and weaknesses identified during Internal Audit's 2018/19 coverage of Information Governance.	Limited	0	1	6	3
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>There were a number of areas of good practice identified including:</p> <ul style="list-style-type: none"> Regular liaison with Risk Management to ensure risks are identified and managed through established corporate processes Data Protection Impact Assessments are linked to other organisational processes such as project management Subject Access Requests are recorded and managed through a database, which facilitates consistency and easy retrieval of data 		<ul style="list-style-type: none"> Low levels of staff undertaking information governance training / recertification (High) Some service areas have not yet completed RoPAs (Register of Processing Activities) that are required to ensure the Authority has an up to date Information Asset Register (Two Medium) The Information Governance Policy Framework was out of date (Medium) A number of published privacy notices did not comply with corporate standards (Two Medium) There are a number of contracts that were established prior to the implementation of GDPR that have not been reviewed to determine whether suitable data processing agreements are in place (Medium) 		<p>The Final Report was issued in May 2022.</p> <ul style="list-style-type: none"> Evidence was obtained to demonstrate that training and recertification levels had improved, but this will be followed up. Evidence was obtained to demonstrate that contracts were being reviewed and data processing agreements being established where necessary. <p>The other recommendations made have not yet reached their target dates for implementation and will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Payroll	To evaluate the controls within the payroll system designed to prevent and detect fraud, irregularity or error, and to ensure that transactions are processed in accordance with Council policy, Financial Regulations, legislation, and the requirements of external bodies such as HM Revenues and Customs.	Significant	0	0	2	6
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>A number of areas of good practice was identified, including:</p> <ul style="list-style-type: none"> • Good quality payroll manual and procedural notes were available for all staff. • An automated process in place for creating new posts within the Business Management system with clear separation of duties built into the system. 		<ul style="list-style-type: none"> • Some procedural non-compliance was identified in the process for making changes to employee bank account details (Medium) • Late notification of information to Employee Services continues to be the main reason for under / overpayments. This also impacts upon disclosure timeframes for reporting information to the pension fund administrator (Medium) 		<p>The Final Report was issued in June 2022.</p> <p>The recommendations will be followed up in the 2022/23 internal audit of Payroll, which to commence shortly.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	School Thematic audits – Monkseaton High School	To ascertain whether the systems and procedures in operation for the financial governance and financial management of the school are functioning satisfactorily in accordance with Local Bank Account Scheme, the Scheme for Financing Schools (July 2021) and the Local Authority's Financial Regulations and Contract Standing Orders. To provide an opinion to management on the effectiveness of the system of internal control in place.	Significant	0	0	2	6
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>A number of areas of good practice were highlighted including:</p> <ul style="list-style-type: none"> Evidence of good quality budget monitoring procedures, although it is noted that the school is in deficit Good purchasing practices to achieve competitiveness from the market Monthly reconciliation of the local bank account 		<ul style="list-style-type: none"> The school does not have a documented business continuity plan (Medium) The asset register / inventory was not up to date at the time of the audit, and annual checks of inventory to assets is not undertaken (Medium) 		<p>The Final Report was issued in June 2022.</p> <p>Progress on the recommendations will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	School Thematic audits – Wellfield Middle School	To ascertain whether the systems and procedures in operation for the financial governance and financial management of the school are functioning satisfactorily in accordance with Local Bank Account Scheme, the Scheme for Financing Schools (July 2021) and the Local Authority's Financial Regulations and Contract Standing Orders. To provide an opinion to management on the effectiveness of the system of internal control in place.	Significant	0	0	2	13
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>A number of areas of good practice were highlighted including:</p> <ul style="list-style-type: none"> • a skills matrix is used to regularly analysis the governors' collective financial skills and comparisons are made against best practice provided by the DfE • Evidence of regular review of structure to ensure staffing costs fall within the expected banding • Monthly reconciliation of the local bank account 		<ul style="list-style-type: none"> • The school does not have a documented business continuity plan (Medium) • An annual inspection of the asset register/inventory is not undertaken. (Medium) 		<p>The Final Report was issued in July 2022.</p> <p>Progress on the recommendations will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	School Thematic audits – Riverside Primary School	To ascertain whether the systems and procedures in operation for the financial governance and financial management of the school are functioning satisfactorily in accordance with Local Bank Account Scheme, the Scheme for Financing Schools (July 2021) and the Local Authority's Financial Regulations and Contract Standing Orders. To provide an opinion to management on the effectiveness of the system of internal control in place.	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 were highlighted including:</p> <ul style="list-style-type: none"> Financial procedures relating to procurement were comprehensive a skills matrix is used to regularly analysis the governors' collective financial skills and comparisons are made against best practice provided by the DfE Evidence of regular review of structure to ensure staffing costs fall within the expected banding 		<ul style="list-style-type: none"> The school does not have a documented business continuity plan (Medium) An annual inspection of the asset register/inventory is not undertaken. (Medium) 		<p>The Final Report was issued in July 2022.</p> <p>Progress on the recommendations will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	School Thematic audits – Benton Dene School	To ascertain whether the systems and procedures in operation for the financial governance and financial management of the school are functioning satisfactorily in accordance with Local Bank Account Scheme, the Scheme for Financing Schools (July 2021) and the Local Authority's Financial Regulations and Contract Standing Orders. To provide an opinion to management on the effectiveness of the system of internal control in place.	Significant	0	0	1	4
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
A number of areas of good practice were highlighted including: <ul style="list-style-type: none"> • A comprehensive business continuity plan was evidenced • Comprehensive purchasing procedures • Monthly reconciliation of the local bank account 		<ul style="list-style-type: none"> • The asset register / inventory was not up to date at the time of the audit, and annual checks of inventory to assets is not undertaken (Medium) 		The Final Report was issued in July 2022. Progress on the recommendations will be followed up in due course.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	Creditors	<p>The audit evaluated the controls in the Creditors' system. Using a systems-based approach. Key controls were identified, documented, evaluated and tested in relation to the system's objectives. The audit covered 2021/22 and 2022/23 transactions to provide assurance to management in the following areas:</p> <ul style="list-style-type: none"> • Raising and approving orders; • Receipt of goods and services; • Payments across the various Accounts Payable processes, including I-Procurement transaction, Manual Purchase orders, Bulk Load and Agency payments. 	Significant	0	0	1	6
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
The controls over 'bulk load', a process for batch payments, was found to be operating well with good and appropriate levels of controls.		A number of agency worker payments were processed through the 'auto-approve' function in the system rather than being checked and approved by an officer in advance of the payment (Medium)		<p>The Final Report was issued in August 2022.</p> <p>The implementation date for the recommendation had not passed at the time of writing, and it will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
8	Special Guardianship Orders (SGO)	The objective of the audit is to provide assurance to the Authority that the systems and procedures for Special Guardianship Orders are adequate, operating effectively and following current legislation.	Limited	0	0	6	6
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
Payments in respect of SGO's are means tested, and the controls over the means testing process were found to be working well. All samples tested during the audit were accurate.		<ul style="list-style-type: none"> • A lack of accurate performance data due to data quality issues when recording and limitations of system functionality (Medium) • Issues with document manage processes within Liquidlogic, with inconsistencies in where records are stored and delays in uploading documents (Medium) • Delays in completing annual financial assessment reviews, and a lack of follow up action (Medium) • A lack of quality assurance over SGO processing and recording (Medium) • A lack of process for monitoring, reporting or escalating SGO over/underpayments or suspected fraud cases (2 x Medium) 		<p>The Final Report was issued in September 2022.</p> <p>Only one recommendation has passed its implementation date. This related to monitoring and reporting and the evidence check undertaken by Internal Audit confirmed that the recommendation had been implemented.</p> <p>The other recommendations made have not yet reached their target dates for implementation and will be followed up in due course.</p>			

5 Evidence Checking

- 5.1 Internal Audit reports issued during the period May to October 2022 included 1 high and 22 medium priority recommendations. There were no critical priority recommendations in the period under review. In respect of the one high and one medium priority recommendation relating to the Information Governance audit, evidence was obtained to demonstrate that they were implemented. The other recommendations were all within the target dates agreed for implementation and will be evidence checked by Internal Audit and reported to a future Audit Committee.
- 5.2 In relation to recommendations from earlier periods, Internal Audit has evidence checked and confirmed the following have been implemented. A summary table on the next page provides statistics on the total number of recommendations (from both earlier and recent periods) checked in this period, the number implemented and number where appropriate revised targets dates were agreed with management.

Audit	Issue Identified	Details of Evidence Check
Hardware and Software	There were more end user devices recorded in the IT Service Management (ITSM) system than in the System Centre Configuration Manager (SCCM).	The evidence check has confirmed that the new ISM (replaced ITSM) and automatic updates were in place with the SCCM. Decommissioning procedures were updated to ensure that equipment was removed ISM and SCCM at the same time.
Internet Review	Safe search functionality on Microsoft Edge and Explorer browsers could be bypassed by end users.	Evidence was provided to show that safe search in Microsoft Edge was now standard. Microsoft Explorer was no longer used.
Payment Card Industry Data Security Standards (PCIDSS)	Controls for device (laptop and desktop) required strengthening to prevent inactive device auto sleep and lockout times being changed.	Evidence was obtained to demonstrate that permissions had been changed to prevent users disabling inactive times.
Business Rates	The write off procedure required review to ensure that all amounts written off were completed promptly, and recorded authorisation on the correct form.	Evidence was obtained to demonstrate that the write off procedure was being reviewed, in order to streamline the overall process.
Risk Management	Where a current risk score was found to be higher than a target risk score, new controls or an explanation was not always recorded.	Evidence was obtained to demonstrate that the wording on the risk register was updated to make the process on changes clearer.

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 Where Appropriate Revised Target Dates Agreed	
		No.	%	No.	%
Critical	Not Applicable	N/A	N/A	N/A	N/A
High	1	1	100	0	100
Medium	15	8	53	7	47
Total	16	9	56	7	44

6 Programme Assurance, Grant Certification and Other Work Undertaken

Area of Work	Summary of Work Undertaken
Local Transport Plan and Associated Funding 2021/22 Grant Certification	The purpose of this grant is to provide financial support for Integrated Transport and Highways Maintenance. The grant expenditure was certified to the value of £3.77m
Swans Business Centre for Innovation (CFI) Phase 2 Feasibility Grant Certification	The purpose of the grants was to support a feasibility study relating to extension and refurbishment of Swans CFI. The grants were certified to the value of £0.033m
Swans Business CFI Phase 2 Works Grant Certification	The purpose of the grants was to provide financial support for the extension and refurbishment of Swans CFI. The grants were certified to the value of £1.482m
Covid-19 Test and Trace Contain Outbreak Management Fund (COMF) Grant Certification	The purpose of the grant was to provide financial support to Councils to help with prevention and management of local outbreaks of Covid 19. The grant claim was certified to the value of £5.92m.
Covid-19 Test and Trace Support Payment Funding Certification	The purpose of the funding was to provide financial support to individuals who had to isolate due to Covid-19 and lost income. The scheme was administered by the Authority on behalf of the Government. The claim for funding was certified to the value of £2.137m.
Public Health – Inpatient Detoxification Treatment Grant Certification	The purpose of the grant was to provide financial support to Councils to help provide inpatient detoxification services. The grant was certified to the value of £0.195m
Public Health – Drug Treatment Crime and Harm Reduction Grant Certification	The purpose of the grant was to provide financial support to Councils to help improve access to drug treatment services. The grant was certified to the value of £0.32m
Public Health - Children of Alcohol Dependent Parents Innovation Fund Grant Certification	The purpose of the grant was to provide financial support to Councils to help improve support services for children of dependent drinkers and alcohol dependent parents. The grant was certified to the value of £0.112m
Green Homes Grant Local Authority Delivery Phase 1b	The purpose of the grant was to provide support to the Council to help increase energy efficiency and low carbon heating for low-income households. The grant was certified to the value of £3.189m
Supporting Families Grant Certification	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. June 2022 Claim certification work complete, value £0.036m. September 2022 claim certification work complete, value £0.126m.
Participation in the Cabinet Office's National Fraud Initiative (NFI)	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

Area of Work	Summary of Work Undertaken
	<p>Minister for the Cabinet Office for matching for each exercise. Using a risk-based approach we routinely assess the matches provided by the NFI exercise</p> <p>The Cabinet Office has recently conducted their biennial National Fraud Initiative (NFI) data-matching exercise. Internal Audit liaised with relevant services to ensure the required data sets were extracted in accordance with the data specifications, and successfully uploaded all data to the secure NFI portal within the required timescales. The results from this exercise will be available for investigation from around January 2023.</p>
Support to Project Boards / Working Groups	<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"> • Energy Bills Rebate • Schools' Banking - Debit and ATM Cards • Education and DSG High Needs Block • Governance Processes – Outside Bodies Appointments • Unified Project (replacement system for housing and building repairs); and • Information Governance and Security Group.