

Internal Audit Service

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

May 2019



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

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

2 Purpose of this Report

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

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

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

4 Opinion Framework

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

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

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

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

- 4.4 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes.
- 4.5 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, Internal Audit has a significant and increasing role in advising on new systems within the Authority. Programme assurance and project boards supported by Internal Audit are shown below. Whilst time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit resource, in that assurance is obtained that effective controls are incorporated into new systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. Internal Audit has supported the following Project Boards (in a programme assurance role) and Working Groups during the period under review:
- Information Security Working Group
 - Social Care IT Transformation (SCITT) Board
 - Office 365 & SharePoint (collaborative tooling solution)
 - Construction Group Insourcing
- 4.6 Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work will be included in Internal Audit's annual report.

IA/AHM/KM/SC
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5 Main Outcomes – Audit Reports Issued During the Period November 2018 to April 2019

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

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

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

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

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

6 Evidence Checking

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

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

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

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