

Internal Audit Service

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

May 2019



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Executive Summary

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

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

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

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

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

1 Purpose of Report

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

2 Governance, Risk Management and Control

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

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

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

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

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

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

Preventative Controls

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

Detective Controls

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

Directive Controls

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

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

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

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

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

4 Audit Resourcing During 2018/19

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

5 Internal Audit Work Performed During 2018/19

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

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

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

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

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

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

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

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

Note: Percentages contain roundings

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

Audit Highlights 2018/19

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

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

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

a) Information Security Working Group (ISWG)

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

b) Social Care IT Transformation (SCITT) Board

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

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

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

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

c) Office 365 & SharePoint (collaborative tooling solution)

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

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

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

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

6 Schools' Financial Value Standard

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

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

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

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

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

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

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

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

8 Ad-hoc Queries / Requests for Advice

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

9 Clients' Views

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

10 Annual Governance Statement 2018/19

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

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

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

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

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

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

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

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

Grant Claim Certification

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

Project Boards / Working Groups

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

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

Ad-hoc Queries / Requests for Advice

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

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

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

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