Internal Audit Service

Key Outcomes from Internal Audit Reports Issued Between May 2019 and October 2019

November 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 May 2019 to October 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. The progress made/action taken by management in respect of key issues identified from each audit has also been included. As discussed at previous meetings of the Audit Committee, Internal Audit has also followed up and evidence checked reported progress, on a sample basis weighted according to priority and materiality. In some cases, due to the target dates for implementation of recommendations, it is too early to report on action taken. In these cases, recommendations will be followed up in accordance with Internal Audit's agreed processes and reported to the May 2020 Audit Committee.

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 (November 2019)

3.1 On the basis of Internal Audit work performed and described in this report, the Chief Internal Auditor's opinion is that the organisation's internal systems of governance, risk management and control are **satisfactory** at this stage in the audit programme. This is a positive opinion for the organisation.

3.2 In this report, details of six audit opinions are presented. Of these four (67%) were 'significant assurance' and two (33%) 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:

- Construction Partner In-sourcing;
- Children's Payments and Process Redesign Group;
- ICT Operations and Advisory Board;
- ICT Office 365 Project Board;
- ICT Performance & Prioritisation Board;
- ICT Disaster Recovery Project;
- Catering Services Chip & Pin

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/TC
November 2019

5 Main Outcomes – Audit Reports Issued During the Period May 2019 to October 2019

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Deprivation of Liberty Safeguards (DoLS)	To determine whether the systems and procedures in operation for administering and assessing Deprivation of Liberty authorisation requests are functioning satisfactorily in accordance with legislation, and to provide an opinion to management on the effectiveness of the system of internal control in place.	**Limited**	0	1	5	9

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
Quality Assurance Process – all DoLS assessments are quality assured by designated signatories before a deprivation of liberty is authorised. **ADASS Forms and Prioritisation Tool –** to help ensure compliance with the Mental Capacity Act the Authority uses the forms designed by the Association of Directors of Adult Social Services (ADASS). In addition, the ADASS priority tool is used to help prioritise the most urgent cases.	• The main issue identified is that DoLS authorisation requests are not always completed within statutory deadlines, and there is a backlog awaiting processing (it should be noted that management were already aware of this before the audit and the position is reflective of national trends). • There is a weakness within management's resource capacity assessment plans that may delay the backlog from being cleared if not addressed. • Due to the way information is currently recorded and managed, it is not possible to undertake detailed performance management of DoLS authorisation requests as they pass through the assessment process. • There have been instances of delay in sending notification letters of the outcome of DoLS assessments and this has on a small number of occasions led to the letters being sent to the wrong parties.	Management confirmed that all high and medium, and seven of the low priority recommendations have been implemented. In relation to the two low priority recommendations not yet implemented, one is still within the original target date and a revised target date has been agreed for the other. Since the audit was undertaken the service have further developed LiquidLogic, the existing Adult Social Care system, and this helped to resolve many of the issues identified. This enables greater performance management as DoLS authorisation requests can be tracked as they move through the assessment process. The service have reported that this is having a positive impact and the backlog is reducing. Internal Audit have checked and confirmed the high and medium priority recommendations have been implemented.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Leisure Management System Review	To determine whether the Leisure Management system and associated procedures are functioning satisfactorily and in accordance with legislation and Council policy. In particular, to determine whether: • The system complies with good practice and all legal, statutory and regulatory body requirements and meets the business need; • All critical user actions are completely and accurately recorded and traceable; • Access to information is controlled and restricted according to users' needs; • The system is effectively administered and supported, including system upgrades; • Staff using the system have been trained; and The system provides complete and accurate management information.	Significant	0	0	2	10

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
The audit of the leisure management system identified several areas of good practice. The recent upgrade to the system replaced a system that was end of life and crashed regularly with a system that is more stable, supported by the suppliers and has greater functionality. Effective procedures are in place for account management that include ensuring users are trained prior to being granted access to the live system and requiring an e-form to be authorised by a line manager prior to the account being created.	There are currently no interfaces between the ASH debtors or AIM income management systems. This results in a large amount of duplicated input between systems. When data is deleted from the system it is retained in the database so potentially failing to comply with the Authority's retention guidelines and data protection legislation.	The target dates for implementation of the recommendations have not yet been reached. The recommendations will be followed up in accordance with Internal Audit's agreed processes.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Network Management	To appraise and evaluate the administration and use of network management in order to determine whether adequate controls and procedures are in place that will safeguard the Authority's IT network assets.	**Significant**	0	0	6	8

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
There is an established structure for fault escalation within ICT and a clear segregation of duties between teams with job descriptions clearly identifying roles and responsibilities. Effective reporting lines for fault management were identified and the IT Service Management (ITSM) system is an effective tool for recording issues; changes; requests; and maintaining an inventory of devices. ICT have employed Phoenix Software to run software scans to ensure software is being used in accordance with licence agreements. ICT have a clear plan of proactive work to be carried out over the next twelve months.	• Several items of critical infrastructure are not up to date with security patches, which is the result of additional patching windows not being agreed with the Authority. • There are currently no smoke alarms, automatic fire suppression systems or moisture detectors located with the secondary data centre at Killingworth. • A review of the Sophos dashboard identified 836 devices with errors and 177 devices with out of date anti-virus software. • There is an alternative internet line in the event that the primary line fails, however, automatic failover from primary to secondary is not seamless with an ICT employee having to manually failover the line causing several hours with no internet access. • In the event of a failover to the secondary internet line only specific services would be available. The Authority would lose access to critical services as a result of the reduced capacity of the secondary internet line. • There is a lack of replication between the primary and secondary data centres. In the event the primary data centre was lost there would be no access to the majority of ICT services.	A number of low priority recommendations have been implemented, including an update to the Authority's Information Computer Security Policy. ICT have now separated domain administrator accounts from the standard team account and implemented 'Local Administrator Password Solution' (LAPS) which provides management of local account passwords of domain joined computers. The target dates for implementation of the remaining recommendations, including the medium priority recommendations, have not yet been reached. The recommendations will be followed up in accordance with Internal Audit's agreed processes.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Debt and Income Management	To evaluate the internal controls in place over the Debtors System, focusing on the following: • Policies and procedures; • Credit notes and write offs; • Recovery action; and • Management Controls.	**Limited**	0	0	8	6

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
There is an adequate segregation of duties within the Debtors system, debtors accounts are created by the Central debtors team, invoices are raised by the service areas and write offs are approved by the Senior Client Manager for Revenues, Benefits & Customer Services. The Officer Scheme of Delegation for write offs and refunds is clear with different employees able to approve different monetary values. Large amounts require a Cabinet decision.	• There is an inconsistent approach across the organisation in respect of issuing credit. One service area advised it did not perform checks for outstanding and previous debt. • The organisation's ability to recover debt is made more difficult due to poor data collection routines resulting in important customer information not being recorded. • There is a large amount of school meal debt pending write off as a result of invoicing annually and poor collection. • Due to the lack of recorded information, it is not always possible to establish whether credit notes are raised in compliance with the Sundry Income Collection and Debt Policy. • There is an imbalance in the write off figures in the debtors system and General Ledger, a large amount of debt is pending write off in debtors. • There is over one million pounds worth of outstanding debt assigned to a single service area, several of these debts have not been acknowledged by the service area and therefore recovery action has not commenced. • Performance targets set out in the Sundry Income Collection and Debt Policy are not monitored by service areas.	The target dates for implementation of the recommendations have not yet been reached. The recommendations will be followed up in accordance with Internal Audit's agreed processes.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
5	Business Rates	To examine and evaluate whether the processes and procedures in operation for the Business Rates system are fit for purpose and support the delivery of business goals.	**Significant**	0	0	0	2

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
Overall there are good procedures in place to provide assurance that the Business Rates system is maintained effectively. There is a robust process in place to ensure the year end billing is run accurately and on time. Experienced officers adhere to the Business Rates system manual. Reconciliations and quality control checks are completed promptly to ensure that the system is updated effectively and accurately.	Low priority recommendations were made in relation to: • Some procedures and processes followed by management are not documented. It is important that key procedures are documented to ensure that during periods of staff absence, processes can continue to be followed in a timely manner, accurately and as efficiently as possible. • The efficiency and reliability of the inspection visits process could be improved. A review of the inspection process is proposed, with a view to implementing an electronic record system, which can be used to monitor and plan inspections.	The target dates for implementation of recommendations have not yet been reached, however, only low priority recommendations were made.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	Customer Relationship Management (CRM) System Review	To determine whether the systems and procedures in operation for the CRM system are functioning satisfactorily and are in accordance with legislation and council policy.	**Significant**	0	0	4	12

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
The CRM system is well managed and supported by officers within Customer Services and ICT. Upgraded versions of the software/patches are adequately tested prior to being implemented in the live environment. Customers can request that a password be applied to their account. New Customer Services users complete a two-week induction programme. Users do not access the live system until after this induction period.	• The System administrators within ICT and Customer Services have been allocated identical access rights despite their differing roles and responsibilities. • There are two Customer Services Officers with system administrator access rights to CRM, one of whom does not currently have the level of knowledge necessary to undertake all tasks associated with the system administrator role. • There are no published record retention guidelines for Customer Services data. There is a risk that the Authority may breach data protection legislation by retaining information in CRM beyond its business need. • Use of CRM may not have been maximised by the organisation with current use limited to Customer Services and Corporate Complaints. Organisational developments implemented or commenced but subsequently abandoned as part of the Customer Journey programme, such as Requests for Information (implemented) and Members' Enquiries (abandoned), could have been developed in CRM.	There has been a short delay in implementing the three medium priority recommendations due to be implemented by 31 October 2019. Revised implementation dates of 30 November 2019 (two recommendations) and 30 January 2020 (one recommendation) have been agreed. These and the remaining medium priority recommendation which has not yet reached the target implementation date will be followed up in accordance with Internal Audit's agreed processes.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
7	Public Services Network (PSN) Code of Connection Submission 2019	To determine whether ICT responses in the 2019 Code of Connection (CoCo) are a fair representation of controls and procedures either under development or planned to be implemented across the Authority's ICT network infrastructure and associated devices.	**Not Applicable**	-	-	-	-

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
- ICT has enabled effective anti-virus and content-filtering software and monitoring routines. - Mobile device management software has been deployed across tablets and mobile telephones that encrypts data and allows devices to be remotely wiped should they be lost. - Effective physical security is in place to restrict access to the Authority's key infrastructure assets and logical access controls have been applied by ICT to enhance desktop security. - An intrusion detection system (IDS) that monitors the network for malicious activity or policy violations has been supplemented by implementation of a complementary intrusion prevention system (IPS). - IT Health Checks (ITHC) are undertaken by certified suppliers and the most recent ITHC is issued to the PSNA.	- A lack of progress on key issues, including the replacement of unsupported platforms and operating systems, that were included in ICT's 2015, 2016 and 2017 remedial action plans and reported to the PSN Authority (PSNA) as underway, were likely to result in increased scrutiny of the 2019 submission. - The 2016 and 2017 submissions were initially rejected by the PSNA who expressed concern over the time proposed to address several issues and considered some timescales for remedial action to be unacceptable, specifically high priority issues that remained open more than three months beyond the date of the external IT Health Check (ITHC). The 2019 submission includes issues identified previously and timescales for high priority issues that extend beyond 2019. - The presence of a number of issues in the 2019 remedial action plan that had previously been reported in previous plans indicates that remedial work is not being completed as planned. In some cases, action is deferred until the following CoCo submission increases its urgency.	The Authority's submission is subject to review by an initial gatekeeper before it is forwarded to the PSNA for assessment. The gatekeeper advised that several vulnerabilities were required to be resolved before the submission could be submitted to the PSNA. The submission was forwarded to the PSNA on 16 October 2019 and ICT are awaiting a response. There are 25 high risk vulnerabilities that remain open, with 12 relating to the replacement the NetApp infrastructure, which is used to store all S and U Drive data. This was scheduled for completion in September 2019 but will now be complete by the end of December 2019. Plans are in place to address the remaining vulnerabilities.

6   Evidence Checking

6.1   Internal Audit reports issued during the period May 2019 to October 2019 included 1 high priority and 31 medium priority recommendations. In respect of these 32 recommendations, 6 (1 high and 5 medium) have been self-certified by management as fully implemented. The remaining 26 medium priority recommendations have not reached their original or revised target dates. All 6 recommendations self-certified by management 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 Internal Audit's evidence checking of high and medium priority recommendations self-certified as implemented by management is provided in 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	1	1	100%	0	0%
Medium	5	5	100%	0	0%
Total	6	6	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.