

Internal Audit Service

2019/20 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

July 2020



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Executive Summary

Overall, Internal Audit work performed in the financial year 2019/20 found that internal control systems in the areas audited were effective.

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

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

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

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 2019/20. This opinion on the framework of governance, risk management and control has been prepared in accordance with the Public Sector Internal Audit Standards and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance and Accountancy as the 'relevant Internal Audit standard setter'.
- 3.3 This judgement is informed by the outcomes of Internal Audit work during 2019/20, 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**. In addition, Internal Audit's work on project assurance (described in paragraph 5.12 below and in **Annex A**) has also been a source of evidence and business intelligence when compiling this annual opinion.
- 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 2019/20, and its subsequent consideration by the Audit Committee.
- 3.6 This is a positive opinion, which means that the organisation has suitable internal control systems. This opinion is based solely on the areas reviewed,

and the progress made by the organisation to action Internal Audit recommendations. Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist.

- 3.7 However, Internal Audit is required to be alert to changes in the risk environment and conditions in which any audited entity operates. Internal Audit notes that the Coronavirus pandemic, which has brought about a number of significant changes nationally, occurred at the end of the 2019/20 financial year. The Coronavirus pandemic has been far-reaching in its impact and local authorities have subsequently been a key part of the response to the pandemic. The full impact of the pandemic is still evolving and all local authorities are in the process of evaluating the changes to their risk profile and operations. North Tyneside Council has expressly considered the impact of Coronavirus on its operations and Internal Audit will formally consider the impact of the Coronavirus pandemic as part of our coverage during 2020/21.
- 3.8 The Chief Internal Auditor has not needed to place reliance on the work of other bodies in forming this view, and there are no limitations in the scope of the opinion.
- 3.9 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. It is management's responsibility to implement agreed recommendations. As part of 2020/21 planned service improvements, Internal Audit will be reviewing the approach to evidence checking the extent to which agreed recommendations have been implemented. In doing so, Internal Audit must balance the value to be gained from revisiting previous recommendations, management's own responsibility for their implementation and the respective value to be gained by reviewing new areas of emerging risk.

4 Audit Resourcing During 2019/20

- 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 2019/20, Internal Audit's resourcing has been lower than planned, due to a vacant Senior Auditor post and a long-term sickness absence. Combined, these factors reduced resource by approximately 1.4 full time equivalent employees from that forecast during the year.
- 4.3 Recruitment to the vacant Senior Auditor post took much longer than anticipated, but a successful recruitment has now taken place. In addition,

the long-term sickness absence has ended. Resourcing continues to be closely monitored and management of resources continues to be undertaken under the Council's prevailing policies.

5 Internal Audit Work Performed During 2019/20

- 5.1 Internal Audit has provided an audit, advice, and programme assurance service to the Authority in 2019/20. 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 2019/20, 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 2019/20 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 2019/20 audit year, classified against each priority, is provided in the table below (data from the previous five years is also shown for comparison):

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Critical Priority	Nil	Nil	Nil	Nil	Nil	Nil
High Priority	7 (3%)	Nil	3 (2%)	2 (1%)	Nil	3 (2%)
Medium Priority	101 (37%)	131 (41%)	56 (36%)	51 (38%)	37 (28%)	52 (32%)
Low Priority	163 (60%)	187 (59%)	98 (62%)	82 (61%)	94 (72%)	107 (66%)
TOTAL	271 (100%)	318 (100%)	157 (100%)	135 (100%)	131 (100%)	162 (100%)

Note: Percentages contain roundings

- 5.7 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes. This is in accordance with the requirements of Public Sector Internal Audit Standards, which requires that a Quality Assurance and Improvement Programme is in place for Internal Audit's work.

Audit Highlights 2019/20

- 5.8 This section of the report is designed to draw attention to significant audits and findings from Internal Audit in the 2019/20 year. It should be read in context of the overall positive 'satisfactory' audit opinion described above.
- 5.9 It is of comfort to the Authority that the Council Tax, Business Rates and Rent Assessment and Collection high value / high volume transactional systems

achieved assurance of 'significant' or 'full'. These systems comprise the main processes by which the organisation receives income.

- 5.10 Attention is also drawn to the 'significant assurance' opinion reached in respect of the Implementation of the General Data Protection Regulation (GDPR). Appropriate arrangements were found to be in place across the Authority to help ensure GDPR compliance. Given the importance of this, a 'significant assurance' opinion in respect of this aspect of the Authority's arrangements is to be welcomed. The implementation of the Authority's collaborative tooling solution should further enable the implementation of effective record management controls across its unstructured data sets.
- 5.11 Internal Audits of Debt and Income Management and Cash and Non-Credit Income received 'Limited Assurance' audit opinions. The Debt and Income Management audit identified areas where controls and procedures can be strengthened to enhance the control environment. The Sundry Income Collection and Debt Policy was updated in 2017. Since this time, the implementation of the new ASH debtors system and the Aspien recovery module had created significant changes to working practices, which needed to be incorporated into the policy. An audit of cash arrangements identified good controls in place within the central corporate systems, with several areas of good practice identified, but highlighted some weaknesses in cash handling procedures within a sample of satellite establishments visited as part of the review.
- 5.12 In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, during 2019/20 Internal Audit has had a significant and increasing role in advising on new systems within the Authority. A full list of the programme assurance and project boards supported by Internal Audit is shown at **Annex A**. Whilst the time spent on such assurance work reduces the number of available audit days for traditional substantive testing, it is considered an efficient use of Internal Audit's resource, in that assurance is obtained that effective controls are incorporated into new major systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. It is expected that this type of audit work will continue in future years. Internal Audit's programme assurance work during 2019/20 included supporting:
- a) Cash Kiosk Replacement Programme
 - b) Catering Services Chip & Pin
 - c) Children's Payment and Process Redesign Group
 - d) ICT Disaster Recovery Project
 - e) ICT Office 365 Project Board
 - f) ICT Operations and Advisory Board
- 5.13 As a general comment, recent projects have identified areas that would have benefitted from more in-depth assurance from Internal Audit at an earlier juncture. This has been discussed with the Head of Resources (Section 151 Officer).

- 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 £17.994m grant funding in 2019/20.
- 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 2019/20 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 2020. However due to the impact of the Coronavirus pandemic, the Department for Education subsequently removed the requirement to submit an SFVS submission for 2019/20. Notwithstanding this, all Internal Audit SFVS work was completed on time.

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

- 7.1 In common with previous years, Internal Audit has performed a number of investigations and management requests during 2019/20. 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; and
 - interrogation of ICT systems and email records.
- 7.2 Where irregularities were confirmed, swift action was taken by management (supported by Internal Audit) to cease the potential for ongoing impropriety. Causes were then investigated and this, as is typically the case in this area of work, tended to highlight the need for enhanced directive control (see paragraph 2.3), in particular management and supervisory controls.

- 7.3 There is one dedicated Counter Fraud officer within the Internal Audit team. A thorough review of the Authority's operations has been undertaken, from a counter fraud perspective, and a 'counter fraud blueprint' has been developed highlighting the areas of North Tyneside's operations where the risks of fraud are likely to be most prevalent. These risk areas are revised and ranked annually, and work is prioritised to help ensure that our counter fraud resource is focused on areas of greatest risk to the Authority. Counter Fraud work undertaken during 2019/20 has resulted in the realisation of £0.130m in directly cashable savings and £0.506m 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 2019/20 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 Public Sector Internal Audit Standards: Summary of Conformance

- 9.1 All public sector internal audit providers in the UK are required to comply fully with the Public Sector Internal Audit Standards (PSIAS). The PSIAS require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the Internal Audit service to be assessed against the PSIAS, and a related Local Government Application Note (LGAN), for conformance.
- 9.2 The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the PSIAS, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

- 9.3 Internal Audit services are delivered to the Authority by the Shared Internal Audit Service (which provides services to North Tyneside Council and Northumberland County Council). The Shared Internal Audit Service was externally assessed for compliance with the PSIAS during 2017 / 2018 and the assessment concluded that:

“The Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion. There were no areas of concern to be reported.”

- 9.4 In accordance with PSIAS, annual self-assessments have been completed since the external inspection which are congruent with the opinion of the external assessment. The small number of areas in which further development had been identified, (e.g. the involvement of the Chair of Audit Committee in the Chief Internal Auditor’s performance appraisal) have been implemented.

10 Clients’ Views and Quality Assessment and Improvement Programme

- 10.1 For several years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment. As part of Internal Audit’s Quality Assessment and Improvement Programme, the client feedback questions were amended for the 2019/20 year across all client entities.
- 10.2 The feedback received from respondents for 2019/20 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 2019/20 was 1.57 (1.0 is the highest that can be achieved).
- 10.3 Internal Audit seeks to continually improve and will be reviewing and implementing new processes through its Quality Assessment and Improvement Programme. The theme of comments added to the feedback is that audits are conducted in a professional manner and findings and recommendations will lead to system improvements. However, Internal Audit seeks to continually improve and will be reviewing and implementing new processes during 2020/21 to refine the reporting format and review process.
- 10.4 The full results for 2019/20 are shown at **Annex B**.

11 Annual Governance Statement 2019/20

- 11.1 The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement. Internal Audit has continued to target its assurance activity at areas of risk in its 2019/20 coverage in line with the agreed audit plan.

Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop awareness of the application of the Council's governance structure.

- 11.2 It is suggested that the following issues are considered for inclusion in the Annual Governance Statement:

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

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

In determining the overall 'satisfactory' opinion, the Chief Internal Auditor has had regard to the established framework of core financial systems in place within the Authority, which when audited during 2019/20 were found to bear appropriate internal controls and to be operating satisfactorily.

IA/KM
July 2020

Annex A: **Formal Audit Reports issued during 2019/20**

<u>Audit:</u>	<u>Opinion:</u>
Business Rates	Significant
Cash and Non-Credit Income	Limited
Council Tax	Significant
Customer Relationship Management System	Significant
Debtors	Limited
Deprivation of Liberty Safeguards	Limited
Email	Significant
Implementation of General Data Protection Regulation	Significant
Internet	Significant
Leisure Management System	Significant
Network Management	Significant
Rent Assessment & Collection (2018/19)	Full
Tyne Port Health Authority Annual Return	N/A

Reports Pending from 2019/20 (draft report issued, awaiting issue as final report)

<u>Audit:</u>
Creditors
Risk Management
S106 / S278 Arrangements

Grant Claim Certification

A1058 Coast Road Local Growth Fund (£7.4m)
A191 Employment Corridor Local Growth Fund (£4.7m)
Carbon Reduction Commitment Energy Efficiency Scheme (£0.2m)
Growth Hub Funding for NECA / LEP (£0.4m)
Local Transport Plan (£4.2m)
Swans Business Centre Phase 3 Local Growth Fund (£0.014m)
Swans Quay Work Feasibility Local Growth Fund (£0.5m)
Troubled Families (£0.58m)

Project Boards / Working Groups

Internal Audit has also supported the following Project Boards / Working Groups during 2019/20 in a programme assurance role:

Cash Kiosk Replacement Programme
Catering Services Chip & Pin
Children's Payment & Process Redesign Group
ICT Disaster Recovery Project
ICT Office 365 Project Board
ICT Operations & Advisory Board
ICT Performance and Prioritisation 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 2019/20

Satisfaction score between 1 and 4 with 1 being very satisfied and 4 being very dissatisfied:

AUDIT PLANNING & CONSULTATION	Average Score
• With the period of notice for commencement of the audit	1.29
• With the explanation provided of the audit process	1.14
• With the areas of coverage from the audit	1.57
• That your requirements were reflected by the audit	1.57
AUDIT APPROACH	
• Attitude and professionalism of the auditor	1.43
• Auditor's knowledge and understanding of auditee's operational requirements	1.43
• Communication skills of the auditor	1.43
• Being kept informed of audit progress, including consultation on findings and likely recommendations	1.71
REPORTING ARRANGEMENTS	
• With the arrangements for consultation on the draft report	1.57
• With the accuracy and materiality of the report findings	1.29
• With the usefulness and practicality of the conclusion and recommendations in the report	1.71
• With the clarity of the report	1.71
• With the format and presentation of the report	1.71
• The time taken to receive the report following the audit visit	2
OVERALL OPINION	
• That the audit was constructive and useful	1.57