

# **Internal Audit Service**

## **Key Outcomes from Internal Audit Reports Issued Between 1 November 2019 and 1 July 2020**

**July 2020**



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

- 1.1 Internal Audit is an independent and objective assurance function designed to add value and improve an organisation's operations. Under the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to help an organisation accomplish its objectives by "bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 1.2 It is important that the Audit Committee receives regular updates on key findings and governance themes from Internal Audit's work. This is also emphasised in the PSIAS which requires the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, and also to report on emerging issues in year.
- 1.3 This report was originally scheduled for presentation to the March 2020 Audit Committee, but the timing of the Coronavirus pandemic and resulting impact on the ability to hold Committee meetings at that time has meant that this report is instead being presented in July 2020.

## **2 Purpose of this Report**

- 2.1 This report summarises the outcomes from Internal Audit reports which have been finalised, in consultation with management, and issued in the period from 1 November 2019 – 1 July 2020. 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. It is too early to report on action taken for a number of recommendations as the target dates have not yet been reached. In these cases, recommendations will be followed up later in the year in accordance with Internal Audit's agreed processes.
- 2.2 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 ongoing awareness of the soundness of the framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor's annual opinion on this matter (normally presented to Audit each May but due to the impact of Covid19 the audit opinion is being presented to Committee this year in July). Committee will note that the findings from some audits covered in this report are one of the intelligence strands which have informed the Chief Internal Auditor's opinion on the framework of governance, risk management and control.

### 3 Opinion Framework

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

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

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

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

3.4 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes.

3.5 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:

- Office 365 Project Board;
- Children's Controcc Governance Group; and
- ICT Operations Advisory Board;
- Catering New Schools Meals Payment System;
- CPPR (Child Payments);
- Cash handling (Covid 19);
- Business Grant Awards (Covid 19);
- Local and Regional PPE Requirements (Covid 19); and
- Social Care Payment Initiatives (Covid19).

3.6 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/KM/CH  
July 2020

## 4 Main Outcomes – Audit Reports Issued During the Period 1 November 2019 to 1 July 2020

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Internet Review	<p>To determine whether systems and procedures in operation protect the Authority's data, systems and users from risks associated with use of the Internet. In particular whether:</p> <ul style="list-style-type: none"> <li>the system is protected against risks associated with connecting to external networks;</li> <li>there is a clear policy in place for use of the Internet;</li> <li>the system is effectively supported and maintained;</li> <li>the system is operating adequately and effectively to ensure constant Internet access; and</li> <li>the system provides comprehensive management information.</li> </ul>	<b>Significant</b>	0	0	1	3
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<ul style="list-style-type: none"> <li>The Authority has recently implemented 'Sophos in the Cloud' which provides greater security.</li> <li>ICT have implemented a number of management consoles (SCCM, Sophos, Fortinet) that can produce tailored reports.</li> <li>The ICT Security Team review reports and have created alerts to identify attempts to access inappropriate content.</li> </ul>		<p>When browsing Google search engine using Google Chrome, a safe search is applied and cannot be removed by end users. For example, using the search term 'Adult Images' no explicit adult content is returned. However, using Microsoft's Internet Explorer or Edge browsers, it defaults to Microsoft's Bing. This recognises that adult content will be returned by the search and requests the user to remove the safe search to prevent filtering. This allows a user to view explicit adult images however, users would be blocked from visiting the website hosting the image. Internal Audit identified this issue in April 2019 and although ICT tested a solution, this was unsuccessful and the issue remains a concern (<b>medium</b>).</p>		<p>Management have advised that deep Inspection software has been implemented in ICT and they are planning to implement this throughout the wider NTC environment, but it will need careful planning and implementation.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	E-Mail System Review	To determine whether the controls and procedures in place for the Authority's e-mail system are adequate and operating effectively and are in accordance with legislation and Council policy.	Significant	0	0	1	3
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<ul style="list-style-type: none"> <li>• ICT have implemented multiple layers of security to protect the internal network from virus attack.</li> <li>• ICT report on a number of statistics from the e-mail system.</li> <li>• In order for an e-mail account to be created an e-form has to be completed by e-Form approver.</li> <li>• Users will receive notifications if an e-mail is blocked by Sophos or Mimecast. The user must then e-mail the ICT Service Desk and request the e-mail to be reviewed and unblocked.</li> <li>• There is a clear separation of duties within the ICT teams.</li> <li>• There is a clear backup policy in place for the three Exchange servers.</li> <li>• ICT have implemented automatic e-mails which alert a number of administrators if backups or replication fails.</li> </ul>		<p>Access to the Killingworth Data Centre requires three keys and only members of the ICT Security and Server teams have a business need to access. However, Killingworth Security have not been provided with a list of authorised ICT employees <b>(medium)</b>.</p>		<p>Management have confirmed that a list of authorised officers has been provided to Killingworth Security and have also revised their procedures to enhance access security.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	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	1	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
Testing identified that for the accounts examined, the Northgate system was updated fully and promptly following any amendments or actions such as valuation listing amendments, refunds and debt recovery.		The Financial Services team provides a list of reversed cheques to the Council Tax team on a monthly basis. Each month, cheques provided cover the previous six months. However, it was identified during the audit that the CT team had received a number of reversed cheques dating back to October 2018, in one month. A number of issues were identified with the information provided from Financial Services. The Council Tax team continues to work through these cheques and to date however a number are still outstanding <b>(medium)</b> .		Management have confirmed that the process to progress the recommendation made is under review.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Cash and Non Credit Income	To provide assurance to the Authority regarding procedural guidance, system access, receipt of income, reconciliation of income, and banking of income.	Limited	0	0	6	15
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<ul style="list-style-type: none"> <li>User accounts are only created once training has been provided;</li> <li>There are strong controls in place for resetting passwords and disabling accounts when an employee leaves the Authority.</li> <li>There is adequate segregation of duties within IM with no employee completing end to end procedures.</li> <li>Income Management undertake an in-depth reconciliation process. The e-returns are reconciled to reports produced from Security Plus. These are then reconciled to the bank statements.</li> <li>Banking of income is done daily by Security Plus. Bank statements are produced the day after by Barclays and sent to IM.</li> </ul>		<ul style="list-style-type: none"> <li>There are a number of large banking discrepancies within catering, these include takings at two schools being under banked by over £500 and one school over banked by over £500. <b>(medium)</b></li> <li>Issues at one school with signing to record the transfer of funds to a Security Plus guard. <b>(medium)</b></li> <li>The takings from a number of schools for the final day of term are left in the safe for a period of up to six weeks over the holidays. <b>(medium)</b></li> <li>During the site visits it was identified that a number of establishments do not have procedural manuals for cash handling. <b>(medium)</b></li> <li>One establishment visited was not entering money immediately through the till and instead left money on the bench beside the till. <b>(medium)</b></li> <li>One establishment visited was not providing customers with receipts and instead was placing these into the bin. <b>(medium)</b></li> </ul>		<p>A reminder has been issued to staff on the importance of security to ensure the safety of the building, children, staff and cash.</p> <p>Staff members have been reminded that they need to ensure they are giving out a receipt to all customers. A notice has been placed on the window requesting that customers wait to receive a receipt for their payment.</p> <p>The remaining four medium priority recommendations have not yet reached the target date for implementation.</p>			



	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Rent Assessment	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.	Full	0	0	0	0
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.		No issues were identified during the review.	Not applicable.				

## **6 Evidence Checking**

- 6.1 Internal Audit would normally undertake evidence checking in respect of all high and a sample of medium priority recommendations, however due to the timing of the Coronavirus pandemic and the consequent restrictions this brought about, this has not yet been possible to perform. Internal Audit will develop a response to evidence checking as part of our ongoing evaluation of post pandemic assurance and will update Audit Committee as part of a future report in due course.