

Internal Audit Service

Key Outcomes from Internal Audit Reports Issued Between 2 July 2020 and 2 November 2020

November 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.

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 2 July 2020 – 2 November 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 each May.
- 2.3 In this report, details of four audit assignments are presented. Of the four assignments, one received a 'full assurance' opinion and three received a 'significant assurance' opinion. No 'critical' or 'high' priority recommendations were made. These reports are detailed in **Section 4** below. Due to the Coronavirus pandemic and the reprioritising of Internal Audit resources a number of additional audit reports are still at draft stage and will be presented in the next Key Outcomes Report.
- 2.4 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. 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.

- 2.5 Between March and October 2020 Internal Audit has been heavily deployed in assurance work necessitated by the Coronavirus pandemic. This has involved project assurance and development of systems related to a number of business grant funding streams, and advising teams involved in work brought about by the pandemic on suitable controls in a rapidly changing environment. Internal Audit has also led on the post payment assurance and counter fraud elements of the pandemic response as well as having completed the certification of a number of central government grant returns.
- 2.6 A summary of the programme assurance and grant certification work undertaken by Internal Audit in the period is included at **Section 6** of this report.

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 4**.
- 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:

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.

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

IA/KM/CH
November 2020

4 Main Outcomes – Audit Reports Issued During the Period 2 July 2020 to 2 November 2020

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Housing Benefit and Council Tax Support	<p>To provide assurance to the Authority on the following key areas:</p> <ul style="list-style-type: none"> • System Parameters – procedures are in place to ensure that the system is adequately updated with all relevant changes and the standard verification approach, which replaced the risk-based verification in September 2019. • Quality Assurance – procedures are in place to ensure that claims are processed accurately and promptly. • Key Performance Indicator (KPIs) - procedures are in place, to ensure KPIs are monitored and assessed for effectiveness. 	Full	0	0	0	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
There are strong quality assurance (QA) arrangements for checking the accuracy of claims processed, and where trends or patterns of errors were identified, appropriate training was carried out.		No issues were identified during the review.		<p>Not applicable – no recommendations were made.</p> <p>The Final Report was issued in September 2020.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Risk Management	To review and appraise the adequacy and effectiveness of controls in relation to Risk Management arrangements, including an assessment against the requirements of the Risk Management Standard (BS ISO 31000:2018) and BS 31100:2011 Risk Management – Code of Practice and Guidance for the Implementation of BS ISO 31000.	Significant	0	0	2	4
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
The risk management process is established and embedded. Risk assessments are recorded and regularly updated with risk owners, using defined categories to evaluate risk including a target risk score for each risk. Risk owners are identified for each risk. Templates and guidance documentation are available.		<p>The main issues were:</p> <ul style="list-style-type: none"> • A Risk Management Policy and Framework document has not been created and approved by members (medium). • In the sample of risk assessments examined it was noted that several risks, in all levels of risk assessments, had a current risk score that was higher than the target score, but new controls were not identified (medium). 		<p>The Final Report was issued in November 2020.</p> <p>The target dates for implementation of the recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Payment Card Industry Data Security Standard (PCI DSS)	To determine whether systems and procedures in operation for obtaining, recording, transmitting and retaining cardholder data are functioning satisfactorily and are in accordance with legislation and Council policy and comply with the PCI DSS.	Significant	0	0	3	4
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<ul style="list-style-type: none"> The Authority has now designated a post as responsible for PCI compliance. The ICT Security Team have created a spreadsheet which details information on all the firewalls and information on the rules. ICT retained their ISO27001 accreditation in January 2020. Every six months a full penetration test of the network is carried out. In addition, quarterly scans are performed. ICT have just rolled out a new Security Incident Event Management (SIEM) system (Logpoint), which has an enterprise license and therefore can be configured to monitor all of its systems. 		<p>The main issues were:</p> <ul style="list-style-type: none"> The NISSUS Vulnerability Scanner identified that there were several critical and high vulnerabilities outstanding relating to both desk top devices and servers (medium). Several file shares relating to a specific system were identified which did not have the necessary access restricted to system administrators. (medium). The security controls applied to desktop and laptop devices require strengthening in relation to device lockout time (the period of inactive time taken for the device to lock itself) (medium). 		<p>The Final Report was issued in October 2020.</p> <p>One medium recommendation was subject to evidence checking and it can be confirmed that any identified vulnerabilities are now passed to the appropriate team. ICT management review these for resolution or mitigation.</p> <p>The target dates for implementation of the remaining recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Accuserv System Review	To determine whether the systems and procedures in operation for the Accuserv system were functioning satisfactorily and are in accordance with legislation and Council policy. The Accuserv system is a new system implemented as part of the project to return Housing, Property and Construction (HPC) to the Council.	Significant	0	0	4	10
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<ul style="list-style-type: none"> There are clear requests for change processed for every change made to the interfaces. HPC teams undertake in-depth testing of all new functionality in the test system before accepting and proceeding to the live upgrade. Accuserv can only be accessed from within the Internal NTC network, this provides an added layer of authentication. All administrator accounts can be attributed to the user. 		<p>The main issues identified related to:</p> <ul style="list-style-type: none"> A lack of documentation handed over from the supplier to support system upgrades. This makes it unclear to the HPC team what changes and testing have been completed (medium). A number of users only require access to run reports however these users have some update privileges to the system (medium). User account permissions in the Windows and Web version of the system are not as strong or robust as the HPC team require (medium). Controls require strengthening in relation to system administrators' access to users' passwords (medium). 		<p>The Final Report was issued in November 2020.</p> <p>The target dates for implementation of the recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.</p>			

5 Evidence Checking

- 5.1 Internal Audit reports issued during the period 2 July 2020 to 2 November 2020 included nine medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these nine, 1 medium priority recommendation, having passed its target date, was evidence checked and can be confirmed as implemented. The remaining eight have not reached their target dates.
- 5.2 As advised in the Key Outcomes Report presented to the July Audit Committee Internal Audit's usual practice of evidence checking of high and medium priority recommendations which have passed their implementation date, could not be performed due to the pandemic. This exercise has now been completed. There were no critical or high priority recommendations made during the previous period. Of the nine medium recommendations reported, four have passed their target date. All four were confirmed by Internal Audit as implemented. Details are provided in the following table:

Audit	Issue Identified	Details of Evidence Check
Email System Review	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. Killingworth Security have not been provided with a list of authorised ICT employees.	A list of employees with access to the data centre has been given to Killingworth security.
Council Tax	The Financial Services team provides a list of reversed cheques to the Council Tax team on a monthly basis. The Council Tax team had received a number of reversed cheques dating back to October 2018, in one month.	New process agreed between Business Support and Revenue and Benefits to ensure timely exchange of information each month re: out of date cheques.
Cash and Non-credit Income	One establishment visited was not providing customers with receipts and instead was placing these into the bin.	Staff members have been asked to ensure receipts are given to all customers. A notice has been displayed at the establishment asking that customers wait for a receipt for their payment.
	At one school, an issue was identified relating to the correct recording of the transfer of funds to a Security Plus guard.	A reminder has been given to staff on the importance of security to ensure the safety of the building, children, staff and cash.

The remaining five recommendations have not reached their target dates.

5.3 A summary of results from both evidence checking exercises is included within the table below:

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action (or awaiting evidence)	
		No.	%	No.	%
Critical	Not Applicable	N/A	N/A	N/A	N/A
High	Not Applicable	N/A	N/A	N/A	N/A
Medium	5	5	100%	0	0
Total	5	5	100%	0	0

6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
Covid-19 Business Grants Scheme:	<ul style="list-style-type: none"> ○ Support to Finance colleagues in preparing monthly assurance submissions to Department for Business, Energy & Industrial Strategy in relation to the Small Business Grant Scheme and Retail, Hospitality and Leisure Grant Scheme. Monthly returns continue to be made and the Discretionary Business Grant Scheme will be introduced to the submissions in future months. ○ Continuing to work with Finance colleagues to progress post payment assurance work identified from completion of the Government's mandatory business grant scheme risk registers. ○ Initial discussions with Finance colleagues regarding potential further grants if businesses are forced to close due to Covid-19 restrictions. ○ Assurance provided to approximately £35m of Business Grants paid to around 3000 businesses.
Covid-19 - Public Health Payments to medical practices in lieu of delivering Health Check service	Public Health agreed to pay 50% of the average monthly payment to medical practices in 2019/20, for April 2020 to July 2020. Internal Audit undertook a post-payment assurance review and concluded that the payments, totalling £0.0353m, were calculated correctly and made on a rational basis.
Covid-19 Self-Isolation Payments	Providing advice and guidance to Finance colleagues regarding the development and implementation of new processes and procedures.
Local Transport Plan and other Associated Grants Capital Funding 2019/20 Statement of Grant Usage	Completed and submitted to Department for Transport by deadline of 30 September 2020 – Integrated Transport (Block Funding via NECA) £0.958m, Local Transport Plan (Block Funding) £2.195m and potholes grant funding of £0.143m
Blue Badge Grant Certification	Completed and submitted to Department for Transport by deadline of 28 July 2020.
Troubled Families Grant Certification	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. September 2020 Claim certification work complete, value £0.0184m.

<p>Participation in the Cabinet Office's National Fraud Initiative</p>	<p>North Tyneside Council participates in the National Fraud Initiative data matching exercise to assist in the prevention and detection of fraud and are required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise. In addition, the Cabinet Office have recently conducted their biennial National Fraud Initiative (NFI) data-matching exercise, Internal Audit liaised with relevant services to ensure the required data sets were extracted, in adherence with NFI data specifications and successfully uploaded all required data to the secure NFI system within the required timescales, results from this exercise will be available in January 2021 for investigation.</p> <p>Internal Audit commenced the annual Council Tax Single Person Discount exercise in October 2020, relevant officers have been contacted and requested to provide the required data sets for upload in December 2020. An additional data set, as part of the counter fraud response to the government Covid-19 relief programme, has been introduced, Internal Audit are currently liaising with the applicable officers regarding extracting data for the required 'Grant Recipients' data, which will be uploaded for data matching in December 2020.</p>
<p>Support to Project Boards / Working Groups</p>	<p>Internal Audit has supported the following project boards / working groups during the period under review in a programme assurance role:</p> <ul style="list-style-type: none"> • ICT Operations Advisory Board; • Catering New School Meals Payment System; • Social Care Payment System initiatives (Adults' and Children's); and • Office 365 Project Board.