Internal Audit Service

Key Outcomes from Internal Audit Reports Issued Between November 2020 and May 2021

May 2021

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 November 2020 – May 2021. 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 soundness of the framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor's annual opinion on this matter. Audit 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.

2.3 In this report, details of four audit assignments are presented. Of the four assignments, two received a 'significant opinion' and one received a 'low assurance' opinion. In one case an assurance opinion was not applicable. 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 2020 and May 2021 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
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4 Main Outcomes – Audit Reports Issued During the Period November 2020 to May 2021

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
1	Section 106 (s106) and Community Infrastructure Levy (CIL)	To review whether an appropriate system of internal controls is in place and functioning for s106 and CIL processes. To ascertain whether the Authority is ready to meet the requirement to publish data for the Annual Infrastructure Funding Statement (AIFS) Requirements.	**Limited**	0	0	14	10

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
The Investment Programme Board (IPB) s106 sub-group has been introduced to provide oversight and co-ordination of investment decisions. The s106 sub-group receives reports presenting planning applications and s106 requests, as well as projects to defray collected s106 contributions and notes of meetings are recorded.	• The calculation of obligation amounts could be more consistent and the obligations amounts were not always included in the s106 Agreement (**five medium**). • Trigger points were not always clear or easy to determine **(medium)**. • Agreements were not always index linked **(medium)**. • A regular reconciliation of s106 Agreements recorded in the system for administering planning applications, and those recorded in the s106 monitoring spreadsheet is not carried out **(two medium)**. • The level of information provided in the financial reports presented to the IPB s106 sub-group could be improved and the notes of these meetings do not record presentation of the financial report **(three medium)**. • A check of the accuracy of CIL calculations is not carried out **(medium)**. • The current layout of the s106 monitoring spreadsheet is not conducive to effective and efficient production of the information required for the AIFS **(medium)**.	The Final Report was issued in March 2021. Two of the medium priority recommendations have been self-certified as complete by management. These recommendations have been evidence checked for implementation. Anomalies identified within the monitoring spreadsheet have been investigated and recorded appropriately. Management have reviewed and discussed the options available for the recording and publication of information required for the AIFS. Internal Audit are continuing to work with the service's management in relation to the implementation of the remaining twelve medium priority recommendations and agreeing revised implementation dates with management. These recommendations will be followed up in accordance with Internal Audit's usual process.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
2	Treasury Management Arrangements	To review whether appropriate internal controls exist within the Authority's treasury management arrangements and the Authority complies with the CIPFA Treasury Management Code of Practice including: • The Treasury Management Policy Statement; • Treasury management practices (TMPs); • Risk management, counterparty lists and limits; • Performance measurement and reporting; and • Cash flow management.	**Significant**	0	0	2	9

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
In line with the recommendations in the CIPFA TM Code the Authority; has a documented Treasury Management Strategy which is updated annually and presented to Council for approval, and reports performance to Cabinet in a mid-year and annual review. Documented Treasury Management Practices (TMPs) are in place and transactions are fully recorded and authorised in line with the scheme of delegation.	• The Authority's TMPs have not been formally approved. The CIPFA TM Code states that TMPs should be subjected to scrutiny by the responsible body following recommendations by the responsible officer **(medium).** • The Annual Treasury Management review and Prudential Indicators report did not specifically state that the investments made remained within the limits set in the strategy for non-specified investments in line with the requirements of the Statutory Guidance on Local Government Investments (3rd Edition) **(medium).**	The Final Report was issued in November 2020. Both medium priority recommendations have been implemented and were subject to evidence checking. The TMPs were presented to Council for agreement on 18 February 2021. A statement on investments was reported as part of the Mid -year report to full Council and as part of the Financial Planning and Budget Report.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
3	Council Tax	To determine whether the procedures in operation for administration of Council Tax are operating satisfactorily, and in accordance with legislation and Council policy.	**Significant**	0	0	0	1

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
Audit testing identified that for the accounts examined, the Northgate system was updated promptly and accurately following any amendments or actions such as valuation listing amendments, refunds, and debt recovery.	No main issues were identified. Overall, the audit has confirmed that the systems in place for the administration of Council Tax continue to operate effectively. As a result of the Covid-19 pandemic all enforcement action was suspended by Cabinet with effect from 1 April 2020 to 26 October 2020 with no reminders, final notices or summons issued. Therefore, it is unlikely that either the in-year collection or the arrears collection targets will be achieved. This position is fully recognised and being managed by the Authority.	The Final Report was issued in April 2021. As there was only one low priority recommendation made no follow up action is required.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
4	Briefing Note - Public Services Network (PSN) Code of Connection (CoCo) Submission 2020	To review the CoCo submission and associated documentation and to confirm to management whether their status was accurately reported.	**N/A**	N/A	N/A	N/A	N/A

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
Since this review was last undertaken in June 2019, ICT has strengthened the overall ICT control environment in what has been a very challenging year.	The most significant issue in this year's IT Health Check (ITHC) relates to a legacy Windows 2008 Server estate. A project to address the 75 instances is ongoing with almost 50% already resolved. The implementation of the new Citrix environment and migration from OpenText (EDRMS) to Microsoft SharePoint represent the majority of the outstanding Windows 2008 issues left to address. Our review found evidence of progress made on key issues, including the replacement of unsupported platforms and operating systems that were included in remedial action plans in recent years. However, our review concluded the Authority's continued accreditation would, to some extent, be determined by whether the Public Services Network Authority (PSNA) is prepared to accept timescales proposed for addressing the remaining vulnerabilities.	The Briefing Note was issued in December 2020. The reduction in the number of high-risk vulnerabilities in this year's ITHC in comparison to 2019 is demonstrated in the table below: {table}

Table within "Progress Made / Action Taken":

Year	High Priority Total	High Priority Incomplete (%)
2019	88	38 (43%)
2020	52	24 (46%)

5   Evidence Checking

5.1   Internal Audit reports issued during the period November 2020 to May 2021 included sixteen medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these sixteen, four recommendations, having passed their target date, were evidence checked and can be confirmed as implemented. The remaining twelve relate to the Section 106 and Community Infrastructure Levy audit. Internal Audit are continuing to work with the service's management in relation to the implementation of these recommendations and are agreeing revised implementation dates for these recommendations. Progress on the implementation of these recommendations will be reported as part of our next Key Outcomes report scheduled for November 2021.

5.2   Of the thirteen recommendations reported in the November 2020 Key Outcomes Report as either outstanding or having not passed their implementation dates, two have now been subject to evidence checking and details are provided in the table below. Four recommendations in relation to the Cash & Bank audit are unable to be evidence checked at this juncture due to Covid-19 as a site visit would be required and these will be incorporated into a future audit of the Cash & Bank system. Three recommendations have not yet reached their target date, and revised target dates have been agreed for the remaining four. All outstanding recommendations will be followed up in due course and details reported to a future Audit Committee meeting.

Audit	Issue Identified	Details of Evidence Check
PCI DSS	Several file shares relating to a specific system were identified which did not have the necessary access restricted to system administrators	All file shares have now been hidden and the ability for everyone to view these has been removed.
Accuserv	There is a lack of documentation handed over from the supplier to support system upgrades. This makes it unclear to the Housing Property and Construction (HPC) team what changes and testing have been completed.	The HPC team now receive adequate documentation prior to making system upgrades.

5.3   A summary of results from the evidence checking exercises is included within 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	Not Applicable	N/A	N/A	N/A	N/A
Medium	6	6	100	0	0
Total	6	6	100	0	0

6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
Covid-19 Business Grants Schemes:	o **Programme Assurance** – continued to provide advice and guidance to colleagues across the Authority as they established new systems to enable the Authority to make payments, from a range of government grant schemes, in accordance with government conditions and as quickly and securely as possible. Across the full 2020/21 financial year payments of around £54m have been made to over 3,000 businesses. o **Pre and Post Payment Assurance** – undertaking and advising on a range pre and post payment assurance activities including utilising the governments 'Spotlight' due diligence tool. As part of the government's requirements, a number of grant scheme risk assessments, assurance plans and government returns on post payment activity have been completed. o **Investigating and responding to any potentially fraudulent payments identified** – this has included the Acting Chief Internal Auditor acting as the Authority's 'Single Point of Contact' with the Department for Business, Energy and Industrial Strategy, National Anti-Fraud Network, National Investigation Service (NATIS), Government Grants Management Function and Counter Fraud Function and UK banking industry entities.
Covid-19 Compliance and Enforcement Grant Certification	The purpose of the grant was to provide support towards expenditure lawfully incurred in relation to Covid-19 related enforcement and compliance activity. The grant claim was certified to the value of £0.106m.
Covid-19 Home to School Transport Additional Funding Grant Certification	The purpose of the grant was to provide support to local transport authorities towards expenditure lawfully incurred or to be incurred by them in respect of the provision of the addition transport capacity for both Home to School and FE colleges. The grant claim was certified to the value of £0.0749m
Covid-19 Travel Demand Management Top Up Grant	The purpose of the grant was to provide support to local authorities on expenditure incurred in relation to additional travel demand management activities. The grant claim was certified to the value of £0.03m
Covid-19 - Public Health Payments to medical practices in lieu of delivering Health Check service	Covid Support Payments to Pharmacists and GPs – Public Health have been making supplier relief payments throughout 2020/21 and Internal Audit have been providing assurance over the systems and procedures developed in relation to implementing guaranteed minimum payments to these service providers. Internal Audit have provided assurance over payments with a combined value of £0.184m

Area of Work	Summary of Work Undertaken
North Bank of Tyne	The Authority identified the North Bank of Tyne area, as an area for focus. The aim of the grant was to provide the resolution to significant road transport barriers and thus facilitate employment growth critical to development of the area. The grant claim was certified for £4.472m
Troubled Families Grant Certification	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. December 2020 Claim certification work complete, value £0.0624m. March 2021 claim certification work complete, value £0.047m.
Participation in the Cabinet Office's National Fraud Initiative	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. Internal Audit commenced collection of data sets in October 2020 for the Annual Council Tax Discounts exercise, and uploaded these by the required deadline in December 2020. An additional data set as part of the counter fraud response to the government Covid-19 relief programme (Business Grants), was introduced, and was uploaded by the January 2021 deadline following consultation with colleagues in the relevant services.
Support to Project Boards / Working Groups	Internal Audit has supported the following project boards / working groups during the period under review in a programme assurance role: • ICT Operations Advisory Board; • Catering New Schools Meals Payment System; • Social Care Payment System initiatives (Adults' and Children's); • Office 365 Project Board; • Unified Project (replacement system for housing and building repairs); and • Information Governance and Security Group.