Internal Audit Service

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

November 2021

North Tyneside Council

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 May 2021 to November 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 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 five audit assignments are presented. Of the five assignments, three received a 'significant assurance' opinion and two received a 'limited 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   Internal Audit has continued to be heavily deployed in assurance work necessitated by the Coronavirus pandemic. This has involved project assurance and development of systems related to business grant funding, and advising teams involved on suitable controls. Internal Audit has also led on the post payment assurance and counter fraud elements of the business grants, as well as having completed the certification of a number of other 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 May 2021 to November 2021

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Security Incident Event Management (SIEM)	To determine whether the systems and procedures in operation for the SIEM system are functioning satisfactorily and are in accordance with legislation and Council policy	**Significant**	0	0	3	6

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
There were many areas of good practice and a selection of those are as follows: • The SIEM system (LogPoint) is monitoring all servers, firewalls, Active Directory (AD), Office 365 (O365) and Sophos in the Cloud. • The ICT Security Officer has configured weekly reports to highlight anomalies within Active Directory. • Email alerts have been configured to ensure when activity reaches a certain threshold, the ICT Security team are informed. • LogPoint has been used to support investigations.	The main issues identified relate to the retention of audit logs and back up of key SIEM infrastructure and data as follows: • ICT can retain audit logs for 90 days. Due to a lack of storage space, ICT are unable to implement the supplier's recommended retention of 1 year. The limited number of logs may be detrimental to ICT's ability to identify the source of an attack **(Medium).** • The Virtual Machine (VM) which holds the SIEM data is not subject to back up routines, as the Authority does not have enough storage **(Medium).** • The Log Point (LP)-Data VM is not backed up, nor is the configuration attached to the VM, which means it could not be restored and would need to be fully rebuilt if a hardware fault occurred **(Medium).**	The Final Report was issued in May 2021. The VM server is now backed up so the configuration is available in the event of a hardware failure. This recommendation was selected for evidence checking and was confirmed by Internal Audit as implemented. Progress has been made by ICT in relation to the remaining recommendations and revised target dates have been agreed for implementation.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Hardware and Software	To determine whether controls and procedures in operation over the acquisition, management, reconciliation and disposal of the Authority's computer hardware and software assets are appropriate and operating effectively.	Limited	0	0	8	6

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
Controls and procedures in place over changes to install software were operating effectively.	• There were more end user devices recorded in the IT Service Management (ITSM) system than in the System Centre Configuration Manager **(Medium).** • Waste Transfer Notes are not always received and retained or, occasionally are incomplete **(Medium).** • Three end-user devices running Windows 7 and numerous servers running Microsoft Server 2008 were identified. Both operating systems extended support were end of life as of 14 January 2020 **(Medium).** • A review of the Windows 10 versions in circulation found seven older versions with four classified as end of life. **(2 x Medium).** • Two specific devices did not have adequate encryption software. A review of a recent 'Bitlocker' report identified 59 of 3,336 devices not protected with encryption. **(2 x Medium).** • Server patches pushed out using Windows Server Update Services (WSUS) were missing **(Medium).**	The Final Report was issued in May 2021. • All Windows 7 devices have been removed from the corporate network. • Waste transfer notes are chased 48 hours after collection if not received. • Two devices with inadequate encryption software have been replaced. • ICT now monitor devices to ensure 'Bitlocker' is enabled, and the 59 devices now have 'Bitlocker' enabled. • All appropriate patches have been applied. ICT will continue to monitor WSUS patches to ensure all patches are appropriately applied. These 5 recommendations were evidence checked by Internal Audit and confirmed as implemented. The remaining three recommendations have not yet reached agreed target dates for implementation.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Schools Meals System Review	To determine whether the systems and procedures in operation for the School Meals systems are functioning satisfactorily and are in accordance with legislation and Council policy. In particular, to determine whether: • The new financial process currently being implemented is satisfactory and adequately safeguards the Authority's income. • New ICT systems and / or changes to infrastructure are being implemented satisfactorily in accordance with the Authority's policies and legislation.	**Significant**	0	0	2	9

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
• Parents can make payments by Direct Debit and accounts can be topped up via Pay Point machines. • Management of the accounts is strictly controlled by Catering Services. • Payment Card Industry Data Security Standards training has been provided to all school staff with responsibilities for processing card payments.	• The process and monitoring of school meal debt required improvement. **(Medium).** • Clarity on the treatment of VAT attributable to school meals was required **(Medium).**	The Final Report was issued in August 2021. Debt is managed with regular reminders being issued. The new system supports better communication with parents allowing frequent reminders. Historic debt is now being collected and is to be written off in line with the corporate debt policy. Management have clarified the service's administration of VAT on school meals, in conjunction with Finance. Internal Audit has confirmed the implementation of these recommendations.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Debt and Income Management	To determine whether there are adequate controls within the debt and income management system to ensure that all sundry income due to the Authority is invoiced for promptly and collected.	Limited	0	0	8	3

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
• Governance - The processes in place ensure a clear separation of duties. • Credit checks are undertaken by the central debtors team for debtors taking on a lease of a commercial property i.e., where the lease results in credit of £5000 and over.	• The Sundry Income Collection and Debt Policy (SICDP) dated 2017 requires updating **(Medium).** • Specific quality assurance is required to help ensure that invoices are correct, and sufficient evidence is retained for debt recovery **(Medium).** • Debt write off procedures require strengthening, with associated monitoring and reporting **(Medium).** • Monitoring of performance or debt management is not taking place as required by the SICDP **(Medium).** • Invoices for school meals are not raised on a timely basis **(Medium).** • Improving retention of information for credit notes to enable compliance with the SICDP to be evidenced **(Medium).** • Collection and recovery of larger debts are not prioritised. **(Medium).** • There are no monthly management reports produced which list debts that are referred back from the central debtors team to the service areas for action **(Medium).**	The Final Report was issued in October 2021. It is acknowledged that the restrictions imposed by the Covid-19 Pandemic have had an adverse effect on income collection and sundry debt recovery during 2020/21. In addition, it has also delayed a planned Finance Service led review of Sundry Debt and Income Management arrangements and implementation of a number of recommendations made in the previous internal audit report. Revised recommendation target dates have been agreed with management for those restated. Recommendations have not yet reached their target dates for implementation and will be followed up in due course.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Business Rates	The objective of the audit was to determine whether the systems and procedures for the administration of the Business Rates system are adequate and operating effectively.	**Significant**	0	0	1	2

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made / Action Taken
Quality assurance checking of amendments to accounts, such as application of discounts or reliefs, is undertaken and helps to ensure the accuracy of changes and billing.	For one of five sampled debt write-offs, sufficient evidence had not been retained to in relation to the appropriate approval. There was also a delay in write-offs (from processing in 2019 to approval in 2021) and no outlined timeframe of when debt is deemed irrecoverable **(Medium).**	The Final Report was issued in October 2021. Management advised that the procedure for Business Rates debt write-offs will be reviewed with all other Operating Procedures and a process for monitoring debt and write off procedures will be added. The target date for implementation has not yet been reached. The position relating collection is being closely monitored and managed by the Authority, following the Covid-19 pandemic.

Evidence Checking

5.1 Internal Audit reports issued during the period May 2021 to November 2021 included 22 medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these 22, eight medium priority recommendations, having passed their target date, were evidence checked and can be confirmed as implemented. Ten recommendations have not reached their target dates and revised target dates have been agreed for the remaining four.

5.2 Recommendations previously reported as having not passed their implementation dates have now been subject to evidence checking and details are provided in the table below:

Audit	Issues	Details of Evidence Check
Accuserv	User access permissions in the Windows and Web version of the system are not as strong or robust as the Housing and Property and Construction (HPC) team require.	The HPC Support team has carried out online training workshops regarding User Modules and Permissions. An updated guide has also been produced. Access to Accuserv has been revised and users assigned only to the required modules.
Section 106	Calculation of obligation amounts is in some cases based on rates set a number of years previously and the link to current cost is not clear.	The Capital Contracts S106 Manager confirmed that thresholds and tapers were reviewed and that Planning confirmed contributions could be tapered upwards but not downwards. Taping downwards would cause a viability issue for developers meaning that small developments wouldn't proceed.

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	10	10	100%	N/A	N/A
Total	10	10	100%	N/A	N/A

6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
Covid-19 Business Grants Scheme:	**Pre and Post Payment Assurance and Government Returns**– undertaking and advising on a range of 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 have been completed. Approximately £66m of expenditure is within scope of the assurance work.
Covid 19 – Additional Home to Schools Transport	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. Claim certified this period to the value of £0.176m, covering two separate certification exercises.
Covid 19 – Sales Fees and Charges	Pre-Submission Check (to provide assurance over claims submitted to the Ministry of Housing, Communities & Local Government).
Covid 19 – Travel Demand Management	Funding to support local authorities in England towards expenditure incurred by them in relation to the impact on the local transport network on the full reopening of schools and colleges and on the additional level of travel demand management. Claim certified to the value of £0.03m.
Local Transport Plan Capital Block Funding 2020/21	Integrated Transport and Highways Maintenance. Completed and submitted to Department for Transport. Total value of grant £3.153m
Tanners Bank – Challenge Fund	Highways Maintenance Challenge Funding for specific highway repair schemes. Value of certification £3.619m.
A1056 Weetslade LGF Transport Scheme (interim)	Section 31 Transport grant for highway improvements. Value certified £4.329m
TCF Tranche 1 Tyne View Terrace Scheme	Section 31 Transport grant for highway improvements. Value certified £0.427m
TCF Tranche 1 Northumberland Park to Cobalt Scheme	Section 31 Transport grant for highway improvements. Value certified £0.285m

Troubled Families Grant Certification	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. June 2021 claim value of £0.034m and September 2021 Claim certification value £0.053m.
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 is required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise. The Cabinet Office released results of the latest biennial National Fraud Initiative (NFI) data-matching exercise matches in January 2021 for investigation by Internal Audit, this exercise is ongoing. An additional data set, as part of the counter fraud response to the government Covid-19 relief programme was introduced. 'Grant Recipients' data matches were released in May 2021, data matches have been allocated to appropriate officers for investigation, this exercise is ongoing. Internal Audit commenced the annual Council Tax Single Person Discount exercise in October 2021, relevant officers have been contacted and requested to provide the required data sets for upload in November 2021.
Schools' Financial Value Standard	On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinate, receive and review Schools' Financial Value Standard submissions, for the Authority's grant-maintained schools. This work has commenced for the year ending 31 March 2022.
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: • Procurement Arrangements • Strategic approach to planning and link to 4-year Medium Term Financial Plan • Equality Impact Assessment processes • Social Care Payment System Initiatives (Adults' and Children's) • Information Governance and Security Group • Anti-social behaviour system replacement • Catering New School Meals System • Car parking system update / replacement and • Unified project - housing & property maintenance / repairs system replacement.