

# **Internal Audit Service**

## **Key Outcomes from Internal Audit Reports Issued Between November 2021 and May 2022**

**May 2022**



# **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 2021 – May 2022. 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 the 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 small 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 Providing regular reports on key outcomes from Internal Audit's work 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 framework. 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 three audit reports are presented. All three reports received a 'significant opinion'. No 'critical' or 'high' priority recommendations were made. These reports are detailed in Section 4 below. Due to continued work on Business Grants (necessitated by Coronavirus pandemic) and the reprioritising of Internal Audit resources some 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 and pre-

emptive 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 advice on controls during development of systems related to a number of business grant funding streams, and more recently on the Energy Bills Rebate. Internal Audit has also been involved in post payment assurance and counter fraud elements of the pandemic response, in addition to the certification of a number of related 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.

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May 2022

## 4 Main Outcomes – Audit Reports Issued During the Period November 2021 to May 2022

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Cash and Bank	The objective of the audit was to provide assurance to the Authority over the controls in the Cash and Bank processes including receipting, reconciliation and banking.	Significant	0	0	0	7
<b>Good Practice Highlighted</b>		<b>Main Issues Identified and Priority of Recommendations</b>		<b>Progress Made / Action Taken</b>			
<p>There were a number of areas of good practice identified including:</p> <ul style="list-style-type: none"> <li>• Comprehensive income management procedures were in place</li> <li>• Detailed reconciliation processes to ensure income transfers from source to destination</li> <li>• Independent detailed reconciliation between bank account and general ledger</li> </ul>		No key matters arising were identified.		<p>The Final Report was issued in December 2021.</p> <p>Management has self-certified that all recommendations where the target date has passed have been implemented, and progress is being made on the remaining recommendations.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Perimeter Security	To provide an opinion to management on the effectiveness of the systems of internal control in place in relation to the Authority's arrangements to protect its computer infrastructure.	Significant	0	0	4	2
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>A number of areas of good practice over physical, network and malware controls were identified including:</p> <ul style="list-style-type: none"> <li>Independent penetration testing and vulnerability scans</li> <li>Only corporate devices can join the network, and USB (universal serial bus) devices are blocked unless previously approved by ICT</li> <li>Devices are configured to check for new virus definitions multiple times a day</li> </ul>		<ul style="list-style-type: none"> <li>Changes to firewall rules had been implemented before they were approved through the change management system. <b>(Medium)</b></li> <li>Testing had not been undertaken to ensure that Firewalls could be restored from backups in the event of failure. <b>(Medium)</b></li> <li>Active Directory accounts with elevated permissions are only reviewed every three months meaning that any inappropriate accounts may not be identified promptly. <b>(Medium)</b></li> <li>Windows update to SQL Servers were not always applied promptly. <b>(Medium)</b></li> </ul>		<p>The Final Report was issued in December 2021.</p> <p>Procedures to ensure that changes to firewall rules are now approved in advance have been implemented.</p> <p>In respect of Windows updates, management confirmed that regular monitoring reports are run to ensure that patches are applied promptly.</p> <p>Internal Audit has confirmed the implementation of two of the four recommendations (details noted above), and have agreed revised target dates for implementation of the remaining two.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Data Analytics and Business Intelligence	To determine whether the Authority has a clear strategy in the use of its data analytic and business intelligence tools. To further determine whether the Authority is maximising its use of such tools across its service areas and business systems to achieve value for money.	Significant	0	0	2	7
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made / Action Taken			
<p>A number of areas of good practice relating to use of Alteryx software, including:</p> <ul style="list-style-type: none"> <li>Improved collation of data from multiple stakeholders to assist with the Supporting Families programme</li> <li>Good quality management information for Children's Services, and which was praised by Ofsted during inspection</li> <li>Provision of management information and dashboards to support for the Authority's covid response.</li> </ul>		<ul style="list-style-type: none"> <li>The Digital Strategy and Data Analytics Policy lack detail on how the Authority can maximise its use of data analytics tools. <b>(Medium)</b></li> <li>There are a number of data analytic and business intelligence tools across the Authority which provide similar functionality. A number of the business systems which utilise these tools are reaching the end of their contracts, which may provide an opportunity to consolidate the analytic tools in use. <b>(Medium)</b></li> </ul>		<p>The Final Report was issued in December 2021.</p> <p>Management has confirmed that progress is being made in respect of the Strategy and Policy, and a revised target date has been agreed. The review of the business intelligence tools has been completed in accordance with the recommendation.</p>			

## 5 Evidence Checking

- 5.1 Internal Audit reports issued during the period November 2021 to May 2022 included six medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these six, three recommendations, having passed their target date, were evidence checked and can be confirmed as implemented. The remaining three relate to the Perimeter Security, and Data Analytics & Business Intelligence audits. Internal Audit are continuing to work with the service's management in relation to the implementation of these recommendations, which are within revised target dates. Progress on the implementation of these recommendations will be reported as part of our next Key Outcomes report scheduled for November 2022.
- 5.2 Of the fourteen recommendations reported in the November 2021 Key Outcomes Report as either outstanding or having not passed their implementation dates, three have now been subject to evidence checking and details are provided in the table below. Seven recommendations have not yet reached their target date, and revised target dates have been agreed for the remaining four. All outstanding recommendations will continue to be followed up and details reported to a future Audit Committee meeting.

Audit	Issue Identified	Details of Evidence Check
Hardware and Software	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	Two recommendations to address these issues were made. The evidence check has confirmed that all Laptops are now running on the correct operating system and all 2008 servers have been removed from the network.
Debt and Income Management	There are no monthly management reports produced which list debts that are unenforceable and are referred back from the central debtors team to the service areas for action.	The evidence check confirmed that a procedure has been introduced to document any such invoices. The document is shared by the central debtors team with the Client Manager and Director of Resources for action where necessary.



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, Grant Certification and Other Work Undertaken

Area of Work	Summary of Work Undertaken
<b>Purchase Card Procedural Developments – Programme Assurance</b>	Advice and guidance was provided to the Procurement Service as they undertook a review and developed existing Purchase Card procedures. A briefing note was issued to the clients and set out some additional areas for Procurement to consider as part of their development work. The work also identified that a corporate Amazon account had been established which consolidated a number of accounts and therefore provided the Authority with savings.
<b>Covid-19 Business Grants Schemes:</b>	<p><b>Programme Assurance</b> – continued to provide advice and guidance to colleagues across the Authority as they established new systems to enable the Authority to make payments in relation to a number of schemes (Restart, Omicron Hospitality &amp; Leisure and Additional Restrictions), in accordance with government conditions and as quickly and securely as possible. Payments of c£14m have been made across the full 2021/22 financial year.</p> <p><b>Pre and Post Payment Assurance</b> – undertaking and advising on a range of pre and post payment assurance activities including utilising the Government’s ‘Spotlight’ and other due diligence tools. This has included advice and guidance on the payment assurance returns made to government.</p>
<b>Covid-19 Compliance and Enforcement Grant – Additional Certification</b>	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 £0.107m.
<b>Digital Inclusion Grant Certification</b>	The purpose of this grant was to provide support to residents who, due to the impact of Covid-19, found themselves digitally excluded and unable to afford connectivity. The grant was certified to the value of £0.13m.
<b>School-Centred Initial Teacher Training (SCITT) – Briefing Note</b>	The purpose of the briefing note was to provide a short summary to the finance committee setting out the controls governing expenditure, and the level of compliance.
<b>Swans Enterprise Zone (Plot 6) Demolition Works and Asbestos Removal Grant Certification</b>	The purpose of this grant was to provide financial support for the development of the Swans Enterprise Zone. The grant was certified to the value of £0.01m
<b>North Shields Masterplan and Business Case Development Grant Certification</b>	The purpose of this grant was to provide financial support to fund a masterplan and business case development for regeneration of the town. The grant was certified to the value of £0.25m

Area of Work	Summary of Work Undertaken
<b>Supporting Families Grant Certification</b>	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. December 2021 Claim certification work complete, value £0.051m. March 2022 claim certification work complete, value £0.083m.
<b>Participation in the Cabinet Office's National Fraud Initiative</b>	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 2021 for the Annual Council Tax Discounts exercise and uploaded these by the required deadline in December 2021. 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 2022 deadline following consultation with colleagues in the relevant services.
<b>Support to Project Boards / Working Groups</b>	<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"> <li>• Social Care Payment System initiatives (Adults' and Childrens')</li> <li>• Energy Bills Rebate</li> <li>• Procurement Arrangements</li> <li>• Equality Impact Assessment Processes</li> <li>• Unified Project (replacement system for housing and building repairs); and</li> <li>• Information Governance and Security Group.</li> </ul>