



Northumberland County Council

Shared Internal Audit and Risk Management Service

2016/17 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

April 2017

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Executive Summary

Overall, Internal Audit's work performed during 2016/17 found that the organisation's internal systems of governance, risk management and control are satisfactory. This is a positive assessment of the Council's control environment and reflects favourably on the organisation's governance arrangements.

This judgement is informed by the outcomes of Internal Audit work during 2016/17, which are reported to the Audit Committee in regular progress reports. These reports have demonstrated that 75% of audit opinions issued in the period have been 'moderate' or higher. In addition, the County's schools have demonstrated generally good standards of governance, leadership and financial management throughout the Schools' Financial Value Standard and school healthcheck reviews.

Where weaknesses in internal control or governance have been identified through audit work, these have been reported and recommendations for improvement agreed with management and are subject to regular follow-up.

The opinion of the **Chief Internal Auditor** (known as the 'chief audit executive' under the Public Sector Internal Audit Standards) is, at the time of preparing this report, that the organisation's internal control systems in the areas audited are **satisfactory**.

The organisation overall has a mature and business-focussed approach to its governance arrangements, and a culture where governance and risk management are embedded and given high organisational visibility.

1 Purpose of Report

- 1.1 This report has been written to provide an annual Internal Audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, taking into account the expectations of the Corporate Leadership Team, Audit Committee and other key stakeholders.

2 Governance, Risk Management and Control

- 2.1 Management's responsibility for the effectiveness of the internal control system is clearly set out in the Council's Finance and Contract Rules which state:
- The Chief Finance Officer is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use;
 - It is the responsibility of Directors to ensure that effective systems of internal control are in place, to ensure compliance with Financial Regulations and Financial Procedures and to establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets.
- 2.2 When auditing, Internal Audit assist management by testing to see whether the controls established for any given system are appropriate. It is important to stress that Internal Audit, while part of the Council's overall assurance framework, is not a substitute for effective internal control within the Council's systems.
- 2.3 Effective controls will depend, amongst other factors, on:
- The nature, size and volume of transactions;
 - The degree of control which management is able to exercise personally;
 - The geographical distribution of the enterprise; and
 - The cost of operation of the controls against the benefits expected from them.
- 2.4 There are eight main types of internal control, details of which are attached for information at **Annex A**.

3 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

- 3.1 The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS), introduced in April 2013 and revised April 2017, to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. For the purpose of meeting this requirement, the Chief Internal Auditor provides one of two opinions:
- (a) That the organisation's framework of governance, risk management and control is **satisfactory** (i.e. satisfactory assurance can be obtained from governance systems and procedures in place); or
 - (b) That the organisation's framework of governance, risk management and control is **not satisfactory** (i.e. there is insufficient control in evidence within the organisation's governance systems to provide satisfactory assurance).
- 3.2 The opinion of the Chief Internal Auditor is that, at the time of preparing this report, the organisation's internal systems of governance, risk management and control were **satisfactory** overall, during 2016/17. The Chief Internal Auditor has not needed to place reliance on the work of other bodies in forming this view, and there are no limitations in the scope of the opinion. There are no qualifications to this opinion.
- 3.3 Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist. This judgement is informed by the outcomes of Internal Audit work during 2016/17, which is reported to the Audit Committee in regular Key Outcomes reports. These have demonstrated that 75% of audit opinions issued in the period have been 'moderate assurance' or higher. A full list of audits performed and opinions issued is included at **Annex B**.
- 3.4 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. Internal Audit will be continuing with its process of evidence checking and following up these recommendations to ensure they are implemented by management. In addition, as reported to the Audit Committee in the Key Outcomes reports, a number of areas of good practice were identified throughout Internal Audit's work during the year.
- 3.5 This is a positive opinion, which means that the organisation has suitable internal control systems. This opinion is based solely on the areas reviewed, and the progress made by the organisation to action Internal Audit recommendations.
- 3.6 It is recommended that Internal Audit's satisfactory opinion on the framework of governance, risk management and control is considered as a source of assurance for the preparation of the Annual Governance Statement for 2016/17, and its subsequent approval by the Audit Committee.

4 Audit Work Performed During 2016/17

- 4.1 Internal Audit has provided an audit, advice and financial consultancy / programme assurance service to the Council in 2016/17. The work of Internal Audit is governed by the PSIAS and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance & Accountancy as the 'relevant Internal Audit standard setter'.
- 4.2 The Internal Audit Service issued twenty three audit reports during 2016/17. A further thirteen reports relating to this period are currently being finalised with our audit clients. As set out in paragraph 3.3, a full list of audit work performed throughout the year is shown at **Annex B**. During 2016/17 Internal Audit responded to a high number of emerging assurance issues, and accordingly it was necessary to switch resource from some scheduled audit and assurance activity. As a result, and in accordance with professional auditing guidelines, the Chief Internal Auditor re-assessed and reviewed the overall Plan to ensure audit resources were directed to areas of maximum benefit to the Council.
- 4.3 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:

Assurance Level	Description
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 of, or occasional non-compliance with, key controls put the achievement of the organisation's objectives at risk in some of the areas reviewed.
Moderate Assurance	While there is a basically sound system of control, there are some weaknesses in the system and evidence of regular non-compliance with key controls that put the achievement of the organisation's 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 (have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

Note: With effect from April 2017, use of the Moderate Assurance opinion classification is being discontinued.

4.4 The opinions given to audits issued during 2016/17 are also shown in **Annex B**.

4.5 In addition to the overall opinion given on every audit assignment, 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 below:

Priority	Classification	Description
1*	Critical / Catastrophic	Action that is considered critical to ensure the organisation is not exposed to unacceptable risks.
1	High / Fundamental	Action that is considered urgent 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.

4.6 The number of Internal Audit recommendations agreed with management during the 2016-17 audit year, classified against each priority, is provided in the table below (data from the previous two years is also shown for comparative purposes).

Priority Level	2014/15	2015/16	2016/17
Critical Priority	Nil	Nil	Nil
High Priority	18 (5%)	7 (2%)	11 (4%)
Medium Priority	130 (39%)	181 (59%)	119 (49%)
Low Priority	187 (56%)	118 (39%)	115 (47%)
TOTAL	335 (100%)	306 (100%)	245 (100%)

4.7 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality assurance and improvement processes.

Audit Highlights 2016/17

- 4.8 An audit was undertaken to examine and evaluate whether the systems and procedures in operation for the collection and recovery of rent and non-rent income in relation to the Council's housing stock are satisfactory and operating effectively. The main focus of the review was on former tenant arrears recovery processes and the backlog of aged debt currently under consideration for write-off. The draft report provides a provisional 'limited assurance' audit opinion. The audit found that although there is basically a sound system of control in place for the collection of rent and recovery of current tenant arrears, there are significant weaknesses in the design of, or regular non-compliance with, key controls in relation to the recovery of rent and non-rent arrears from former tenants. Key issues highlighted within the report relate to: inaccuracies in the profile of former tenant debt; no documented or approved mechanism to write off former tenant arrears; and a lack of documentary evidence to support the write off of some former tenant debt. Recommendations for improvement within the report will be followed up within 2017/18 at a time to be agreed with senior management.
- 4.9 Following on from a detailed evaluation of governance arrangements within Active Northumberland carried out in 2015/16, three further Active Northumberland reports have been finalised and issued in 2016/17. Non-credit income and expenditure and health and safety reviews covering the nine main leisure centres, along with the same for the Pegasus Centre, which provides riding for the disabled, were undertaken. 'Limited assurance' audit opinions were given for all four reviews. Main concerns identified during these reviews were in relation to:
- stocks purchased for resale not reconciled with income received;
 - weaknesses in the processes for recording vending machine sales;
 - inventories not being up to date;
 - a risk of membership card abuse;
 - frequency of pool testing;
 - use of 'pool supervision' records; and
 - unstaffed receptions prior to centres closing.

A number of good practices were also highlighted such as having a significant number of health and safety risk assessments in place and a 'blind' cashing up process for balancing tills. Reviews of key financial system controls at the main leisure centres are in progress and will be finalised in the first quarter of 2017/18.

- 4.10 A review of the processes for highlighting and monitoring schools' deficit balances was undertaken following concerns raised when two closing schools, that were anticipated to close with surplus balances, were found to have deficits at the point of closing down the budgets. As the Council is facing increased financial risk due to the number of schools falling into financial difficulty, it is vital to have a robust financial process in place for monitoring school budgets and ensuring advice and guidance are readily available. Improvements to the budget monitoring process within Corporate Finance including to highlight in advance those schools falling in or out of a 'causing financial concern' category were actioned during the review.

- 4.11 One of five school healthcheck audits carried out during 2016/17 resulted in a 'limited assurance' opinion being provided. Further detail regarding this piece of work and the main aspects of the control environment that require strengthening are summarised in Section 6 below of this report.
- 4.12 In our 2015/16 Annual Opinion report we drew attention to the following audits that had received limited or no assurance and an update on each of these audits is provided in the following paragraphs:
- Active Northumberland Governance Arrangements;
 - Four of the ten school healthcheck audits carried out resulted in limited assurance opinions being provided; and
 - Information Governance Arrangements.
- 4.13 The 2015/16 Active Northumberland Governance Arrangements review found that governance lacked clarity and were unlikely to be effective as they currently operated and a 'no assurance' audit opinion was therefore provided at that time. It is now considered sufficient time has elapsed to implement recommendations within the report and improve the effectiveness of arrangements and so it is proposed to carry out a follow up audit within 2017/18, as agreed in the Active Northumberland Strategic Audit Plan for 2016/17.
- 4.14 Of the four limited assurance opinions provided to schools, one school has confirmed all high and medium recommendations have been implemented and one school requested a full follow up visit which was carried out during 2016/17 and resulted in a revision of the audit assurance opinion to 'significant'. Confirmation of implementation of high and medium recommendations is awaited for the third school. The remaining school is in the process of transferring to a sponsored academy and following due consideration not to over burden the school during this transitional period, a request to confirm implementation of recommendations has not been made at this time.
- 4.15 The 2014/15 Information Governance Arrangements audit resulted in a 'limited assurance' audit opinion being issued. The audit identified a number of areas that needed to be addressed to enhance its information governance arrangements, improve compliance with the Data Protection Act and address recommendations made by the Information Commissioner's Office (ICO) in 2012. A follow-up audit was completed in 2015/16 and the audit assurance opinion increased to a 'moderate assurance' level as provisionally reported in the 2015/16 annual audit opinion report. Subsequently the Audit Committee, on 25 January 2017, received an update on progress with implementation of recommendations from the Chief Information Officer with reference made to appointment of a Strategic Programme Manager to assist with the delivery of the Corporate Information Management Strategy, bringing back in house the County Archives service and digitising the Council's paper records. Although concerns were raised by the Audit Committee on the number of outstanding recommendations the Chief Internal Auditor drew attention to the prioritisation of recommendations with a large proportion classed as 'low priority'. The Chief Information Officer agreed to provide a further update report to the first Audit Committee in 2017/18.

- 4.16 In addition to performing internal audits of existing systems within the Council and responding to queries on the operation of such systems, during 2016/17 Internal Audit continued to have an increasing role in advising on new systems and processes within the Council. A full list of the programme assurance work and project groups supported by Internal Audit is shown at **Annex B**, the most notable being our involvement in the Digital Northumberland Programme Board. 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 systems and processes from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. It is expected that this type of audit work will continue in future years.
- 4.17 Internal Audit has also undertaken a number of investigations into planning applications during the period summarised below:
- In the Summer of 2016, three letters of complaint were received by the Chief Executive. The Chief Internal Auditor and Monitoring Officer were requested by the Chief Executive to undertake an independent investigation, concerning letters of complaint in respect of planning applications. A number of Freedom of Information requests relating to the same planning applications and related matters were also received by the Authority, starting in 2014 and continuing into 2016, and these requests were also considered during the course of the investigation. The investigation did not find any evidence to substantiate allegations or insinuations of any improper conduct.
 - Also in the In the Summer of 2016 a further two letters of complaint were received by the Chief Executive. These letters concerned a specific planning application. The complainants were concerned as to why a Building Conservation Officer appeared to have changed their opinion on the level of harm likely to ensue from the proposed development; whether the landowner, a County Councillor, may have been able to exert improper influence on the outcome of the planning application; why the locality was within the Western (rather than Central) delivery area; and whether proper planning process had been followed throughout, with the application ultimately being considered and decided at a meeting of Strategic Planning Committee. An audit investigation was commissioned by the Chief Executive. The investigation sought to understand the concerns raised in the letters of complaint; to assess the related evidence available; and to evaluate whether the planning application had been determined according to due planning processes. In summary, the investigation concluded that proper planning process was followed.
- 4.18 There are a number of funding organisations that require an Internal Audit review prior to final grant claim submission. This area of our activity is also shown at **Annex B**. The largest piece of work undertaken in this area during 2016/17 was the Local Transport Plan Grant which was £17.4m closely followed by the Flood Capital Grant of £14.6m.

5 Key Financial Systems

- 5.1 Internal Audit performed audits covering a number of the organisation's key financial systems during 2016/17. These systems comprise the main processes by which the organisation makes payments or receives income. All of these systems involve a high volume of transactions, of a cumulatively high value, and require sufficient internal control to safeguard the organisation's financial interests. Effective controls within these key systems are also a key strand in the organisation's counter-fraud arrangements.
- 5.2 Corporately the organisation has established standardised systems and procedures for the administration of its key financial processes. These systems and procedures will, if consistently and correctly applied, promote consistent control.
- 5.3 Of the key financial system audits carried out during 2016/17, including those in the process of being finalised, four have been issued with a 'significant assurance' audit opinion and one, the Housing and Council Tax Benefit system, with a 'full assurance' audit opinion. The 'full assurance' opinion is based on a high level review of key systems and processes which found the controls in place were well established and consistently applied to ensure the service is delivered to a high standard, including managing significant challenges such as the introduction of Universal Credit which will replace Housing Benefit in Northumberland in Autumn 2018. This provides assurance that the framework of governance, risk management and control is working well in respect of key financial systems.
- 5.4 Where additional suggested controls have been identified, these have been communicated to the respective Director, Head of Service and Service Manager through formal Internal Audit reports.

6 Establishment Audits

- 6.1 Internal Audit's coverage of satellite locations in 2016/17 focussed on a number of school healthcheck reviews. These audits are included in **Annex B**. It is particularly important that directive controls in our establishments are strong, as these services are sited away from central directorate teams and the immediate first-hand support that these teams can offer.
- 6.2 School healthchecks are provided on a traded basis to provide independent assurance to governors and headteachers on processes and controls within schools. The healthchecks comprise a review of many of the areas covered within the Schools Financial Value Standard (SFVS) self-assessment and several of the areas documented within Schools' Financial Regulations. These also inform the Council's Section 151 Officer's annual declaration in relation to controls within schools.
- 6.3 The testing performed in 2016/17 showed that overall the internal control framework established in the Council's satellite establishments is operating satisfactorily. The majority of the school healthcheck reviews resulted in positive assurance levels with

three significant audit opinions issued. The remaining school received limited assurance.

6.4 Common themes of non-compliance with financial regulations identified from the healthcheck visits are summarised below:

- Governance – register of pecuniary interests for staff and governors not fully complete or up to date; scheme of delegation to the headteacher not approved by governors;
- Results of recent benchmarking exercises to determine value for money not sufficiently reviewed or reported to governors;
- A lack of evidence for approval for goods and services and payment authorisation;
- VAT on some petty cash items not accounted for;
- Inventories of assets not fully completed or in place; and
- The school fund not administered in line with guidance.

7 Schools' Financial Value Standard

- 7.1 On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinated, received and reviewed SFVS submissions for all of the Council's grant-maintained schools. All schools submitted their self-assessments by the deadline of 31 March 2017.
- 7.2 The generally good standards of governance, leadership and financial management demonstrated by Northumberland schools during the SFVS process gives the Council alternative means of assurance that overall a satisfactory control environment continues to be in place within the Council's schools.

8 Special Investigations

- 8.1 During 2016/17, the Service responded to a high number of emerging governance issues arising in year. These relate to issues which could not be foreseen, and where irregularity may have been indicated. As such, it is important that the organisation can call upon Internal Audit resource to respond quickly to assess the extent of potential problems.
- 8.2 Whilst some of the ad-hoc investigatory work performed by Internal Audit during the year concluded proper process had been followed, some highlighted the need for enhanced preventative and directive controls in some parts of the Council and in some establishments. This reiterates the importance of service management establishing effective internal control systems, and checking that these are adhered to.

9 The National Fraud Initiative (NFI)

- 9.1 Northumberland County Council is part of the Cabinet Office's National Fraud Initiative (NFI) and is required to provide particular sets of data to the Minister for

the Cabinet Office for matching for each exercise. Before this information can be provided, the Council is required to ensure that appropriate steps have been taken to notify data subjects held in the organisation's relevant information systems that data may be used for the prevention and detection of fraud.

- 9.2 As in previous years, Internal Audit have acted as the lead within the Council for the NFI data-matching exercise. Data was extracted from the relevant Council systems and submitted to NFI, additionally fair processing notices were issued to notify all data subjects that data may be used for the prevention and detection of fraud. The NFI 2016/17 results have been released and Internal Audit and appropriate officers within departments are currently investigating the matches and updating the NFI system with outcomes.

10 Ad-hoc Queries / Requests for Advice

- 10.1 Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not usually appropriate to issue a formal report.

11 Clients' Views

- 11.1 For several years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment.
- 11.2 The feedback received from respondents for 2016/17 remains very positive. Clients score the service from 1 to 4 against a number of criteria, with 1 being very satisfied and 4 being very dissatisfied. From all the returned feedback forms, clients' overall opinion was that audits are constructive and provide value to management. The overall average score of 1.2 compares to last year's score of 1.0 and the previous year's score of 1.3; everyone responding at least satisfied but most clients are very satisfied. All responses to individual criteria were in the range of very satisfied to satisfied, however, Internal Audit seeks to continually improve and will be reviewing and implementing new processes through its quality assessment and improvement programme. The theme of comments added to the feedback is that audits are conducted in a professional manner and findings and recommendations will lead to system improvements.
- 11.3 The full results for 2016/17, along with comparative data from 2015/16 and 2014/15 are shown at **Annex C**.

12 Annual Governance Statement 2016/17

- 12.1 The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement. Internal Audit has continued to target its assurance activity at areas of risk in its 2016-17 coverage in line with the agreed audit plan. Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop awareness of the application of the Council's governance structure.

- 12.2 It is suggested that the following issues are considered for inclusion in the Annual Governance Statement:

Overall Opinion on the organisation's internal systems of governance, risk management and control:

The overall opinion of the Chief Internal Auditor on the organisation's internal systems of governance, risk management and control, was found to be satisfactory (ref point 3.2).

Areas where the framework of governance, risk management and control is working well include all of the key financial system audits carried out during 2016/17, including those in the process of being finalised. Four key financial system reports have been issued with a 'significant assurance' audit opinion and one, the Housing and Council Tax Benefit system with a 'full assurance' audit opinion.

This 'full assurance' opinion is based on a high level review of key systems and processes which found the controls in place were well established and consistently applied to ensure the service is delivered to a high standard, including managing significant challenges such as the introduction of Universal Credit which will replace Housing Benefit in Northumberland in Autumn 2018. This provides assurance that the framework of governance, risk management and control is working well in respect of key financial systems (ref point 5.3).

An area where the framework of governance, risk management and control requires improvement identified during audits carried out during 2016/17, including those in the process of being finalised is housing rent assessment and the collection and recovery of rent and other income in relation to the Council's housing stock. The audit found inaccuracies in the profile of former tenant debt; no documented or approved mechanism to write off former tenant arrears; and a lack of documentary evidence to support the write off of some former tenant debt (Ref. point 4.8).

Attention is drawn to the progress which has been demonstrated in the following areas, which had previously been highlighted for consideration for inclusion in the 2015/16 Annual Governance Statement due to their low assurance levels. The follow-up activity undertaken in 2016/17 has shown improvement in the following areas:

- School Healthchecks - Of the four limited assurance opinions provided to schools, one school has confirmed all high and medium recommendations have been implemented and one school requested a full follow up visit which was carried out during 2016/17 resulting in a revision of the audit assurance opinion to 'moderate'. Confirmation of implementation of high and medium recommendations is awaited for the third school. The remaining school is in the process of transferring to a sponsored academy and consideration was given not to over burden the school during this transitional period and so no request to confirm implementation of recommendations has been made (Ref. point 4.14).

- Information Governance Arrangements - The follow-up audit has now been completed and it can be confirmed that the audit assurance opinion increased from a 'limited' to 'moderate assurance' level as reported in the 2015/16 annual audit opinion report. The Audit Committee on 25 January 2017 received an update on progress with implementation of recommendations from the Chief Information Officer with reference made to appointment of a Strategic Programme Manager to assist with the delivery of the Corporate Information Management Strategy, and to bringing back in house the County Archives service and to digitising the Council's paper records. Although concerns were raised by the Audit Committee on the number of outstanding recommendations the Chief Internal Auditor drew attention to the prioritisation of recommendations with a large proportion classed as 'low priority'. The Chief Information Officer agreed to provide a further update report to the first Audit Committee in 2017/18. (ref point 4.15).

On the basis of the findings from our follow-up work these areas do not require consideration for inclusion in the 2016/17 Annual Governance Statement.

A final area of focus is in relation to Active Northumberland. The 2015/16 Active Northumberland Governance Arrangements review found that governance lacked clarity and were unlikely to be effective as they currently operated and a 'no assurance' audit opinion was therefore provided at that time. It is now considered that sufficient time has elapsed for Active Northumberland to implement recommendations within the report and improve the effectiveness of arrangements and so it is proposed to carry out a follow up audit within 2017/18 and reevaluate governance arrangements (ref point 4.13). In addition three further Active Northumberland reports have been finalised and issued in 2016/17: Non-credit income and expenditure and health and safety both of which covered the nine main leisure establishments; and the same reviews of the Pegasus Centre which provides riding for the disabled (Ref. point 4.9). 'Limited assurance' audit opinions were given for all four reviews. The main concerns identified during the review were in relation to: stocks purchased for resale not reconciled with income received; weaknesses in the processes for recording vending machine sales; inventories not being up to date; a risk of membership card abuse; frequency of pool testing; use of 'pool supervision' records and unstaffed receptions prior to centres closing. A number of good practices were also highlighted such as having a significant number of health and safety risk assessments in place and a 'blind' cashing up process for balancing tills. Reviews of key financial system controls at the main leisure centres are in progress and will be finalised in the first quarter of 2017/18. Work within Active Northumberland will continue to be a focus of Internal Audit's assurance activity in 2017/18.

Annex A: Eight Main Types of Internal Control

Preventative Controls

- (i) Segregation of duties (no one person should be responsible for processing and recording a complete transaction).
- (ii) Authorisation and approval (all financial transactions should require authorisation by an appropriate responsible official; the limits of authorisation should be specified).
- (iii) Physical (custody of / access to tangible assets should be secure and limited to authorised personnel).

Detective Controls

- (iv) Arithmetic & Accounting (controls within the recording function to check that transactions have been authorised, are included, are correctly recorded and are accurately processed).

Directive Controls

- (v) Organisation (responsibilities should be defined and allocated; reporting lines should be identified; delegation of authority should be clearly specified).
- (vi) Supervision (all actions by all levels of staff should be supervised; the responsibility for this supervision should be clearly laid down and communicated to the person being supervised).
- (vii) Personnel (procedures should exist to ensure that staff are competent to carry out the jobs assigned to them, including proper recruitment and performance management procedures, career prospects, training and pay policies).
- (viii) Management (controls exercised by management outside the day to day routine of the system, including supervision).

Annex B: Formal Audit Reports issued during 2016/17

Corporate Resources

Audit	Opinion
IT - Information Governance Follow Up (ref. point 4.15)	Moderate
IT - Enterprise Resource Planning (ERP)	Significant
IT - Network Management	Significant
IT - Revenues and Benefits (Northgate) Systems Review	Moderate
IT – Hardware and Software	Moderate
IT – Debtors (ERP) System	Significant
Procurement – Assurance Mapping	N/A
Procurement – Governance Arrangements	Significant
Procurement – Core Systems	Significant
Procurement – Value for Money and Procurement Compliance	Significant
Active Northumberland – Health and Safety (ref. point 4.9)	Limited
Active Northumberland – Non-Credit Income and Expenditure (ref. point 4.9)	Limited
Active Northumberland – Pegasus Centre – Non-Credit Income and Expenditure (ref. point 4.9)	Limited
Active Northumberland – Pegasus Centre – Health & Safety (ref. point 4.9)	Limited
Cash and Bank	Significant

Local Services and Housing Delivery

Audit	Opinion
Local Sustainable Transport Fund Grant Audit 2012- 15 - Briefing Note	N/A

Wellbeing and Community Health Services

Audit	Opinion
School Healthchecks x 5 (ref. point 6.3)	2 x Moderate 2 x Significant 1 x Limited
Adolescent Accommodation	Significant
Schools Deficit Budgets (ref. point 4.10)	N/A

Grant Claim certification

Carbon Reduction Commitment
Flooding Grant
Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant
Local Transport Plan Grant
Local Sustainable Transport Fund
Challenge Fund
Troubled Families Grant

The Sele First School – Collaborative Fund Grant
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Programme Assurance / Projects Groups

Digital Northumberland Programme Board
Highways Assets Valuation
Troubled Families Partnership

Reports Pending from 2016/17

Audit
Active Northumberland – Accounts Payable
Active Northumberland – Accounts Receivable
Active Northumberland – Budgetary Control
Active Northumberland – HR and Payroll
Active Northumberland – Procurement
Affordable Housing
Business Rates
Creditor Payments
Housing and Council Tax Benefit (ref. point 5.3)
IT Audit – Mayrise (Highways Information)
IT – SWIFT (Social Care System)
Rent Assessment and Collection (ref. point 4.8)
Travel and Subsistence

Annex C: Overall Results from Client Feedback Forms 2016/17

Satisfaction score between 1 and 4 with 1 being very satisfied and 4 being very dissatisfied (scores from 2015/16 & 2014/15 are shown in brackets):

		Average Score
AUDIT PLANNING/COVERAGE		
• With the advance notification for the audit		1.0 (1.2;1.2)
• With the areas covered by the audit		1.0 (1.0;1.1)
• That your requirements were reflected by the audit		1.5 (1.0;1.1)
AUDIT APPROACH		
• That the objectives of the audit were clearly explained and understandable to you		1.2 (1.0;1.0)
• With the knowledge and professionalism of the auditors		1.0 (1.0;1.0)
• With the attitude and politeness of the auditors		1.0 (1.0;1.0)
• With the auditors understanding of your operational requirements		1.2 (1.0;1.3)
• That there was adequate consultation on findings and recommendations		1.2 (1.0;1.0)
REPORTING ARRANGEMENTS		
• With the accuracy of the findings		1.7 (1.0;1.2)
• With the materiality of the findings		1.7 (1.0;1.1)
• That the report was clear and concise		1.2 (1.0;1.2)
• With the usefulness of the conclusions and recommendations		1.2 (1.0;1.4)
• With the arrangements for commenting on the draft report		1.5 (1.0;1.0)
• The time taken to produce the report following the audit visit		1.5 (1.6;1.1)
OVERALL OPINION		
• That the audit was constructive and provided value to management		1.2 (1.0;1.3)