

**NORTHUMBERLAND**

Northumberland County Council

## **Shared Internal Audit and Risk Management Service**

### **Key Outcomes from Internal Audit Assignments (October 2016 - June 2017)**

# 1 Introduction – Governance Framework

- 1.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Under the Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy and Institute of Internal Auditors, Internal Audit is required to report to the organisation on emerging issues in respect of the whole range of areas examined in its work.
- 1.2 To provide optimum benefit to the organisation, Internal Audit works in partnership with management to improve the control environment and assist the organisation in achieving its objectives. The organisation is responsible for establishing and maintaining governance and control systems. Internal Audit plays a vital part in advising management whether these arrangements are in place and operating properly.
- 1.3 Internal Audit has responsibility for forming opinions on the organisation's governance arrangements, and must give an annual formal opinion on these. 'Opinion' in this context does not mean 'view', 'comment' or 'observation'; it means that Internal Audit must have performed sufficient, evidenced work to form a supportable conclusion about the activity it has examined.

## 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 October 2016 – June 2017. 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.
- 2.2 It is intended that by providing half yearly reports on key outcomes from Internal Audit's work, this will enable the Audit Committee to develop an on-going awareness of the soundness of the control environment, in addition to receiving the Chief Internal Auditor's annual report and opinion on the framework of governance each year. It also allows the Chief Internal Auditor to give an indicative opinion, at regular points in the year, on the adequacy of the organisation's control environment based on published reports and emerging issues at this stage.

## 3. Opinion on the Framework of Governance, Risk Management and Control (June 2017)

- 3.1 On the basis of Internal Audit work performed and described in this report, the report of the preceding period considered by the Audit Committee in November 2016, and work performed from the approved Strategic Audit Plan for 2016/17, the Chief Internal Auditor's opinion is that the organisation's internal systems of governance, risk management and control are **satisfactory**.

This is a positive opinion for the organisation.

- 3.2 Throughout 2016/17, the Council's Assurance Framework had five levels of assurance, outlined in more detail at point 4 below. In this report, details of 11 audit assignments are presented. An opinion was not applicable for one of the assignments. Of the remaining ten, nine (90%) were 'moderate assurance' opinion classification or higher. No 'critical' recommendations were made.

## 4 Opinion Framework

- 4.1 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.

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 or inconsistent application of controls put the achievement of particular 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.

With effect from April 2017, use of the Moderate Assurance opinion classification was discontinued.

- 4.2 The opinions given to audits issued during this period are shown in **Section 5**.
- 4.3 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 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.

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

4.5 In addition to performing internal audits of existing systems within the Council 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 Council. 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. Internal Audit has supported the following project boards / working groups during the period under review in a programme assurance role:

- Highways Assets Valuations;
- Digital Northumberland Programme Board; and the
- Troubled Families Outcomes Plan Board.

4.6 Internal Audit has also supported a number of special investigations and management requests. Due to the nature of this work, it is not appropriate to report findings in detail as part of this report (as disclosure may weaken the control environment). Audit Committee will be briefed separately on these matters.

4.7 Regarding the Council's schools, the primary client for audit work is the Chief Finance Officer (CFO) who is required to report to the Department for Education each year regarding Schools Financial Value Standard (SFVS) self-assessment reports. The SFVS is a mandatory financial self-assessment required to be completed by all Local Authority schools. The CFO must declare the number of reports received and give a general assurance that there is a system of audit in place which gives adequate assurance over schools' standards of financial management and the regularity and propriety of their spending. Internal Audit worked with schools to promote good quality

reporting assessments and all schools submitted their self-assessments by the deadline of 31 March 2017.

4.8 In addition to the Internal Audit final reports issued during the period October 2016 to June 2017 which are detailed in Section 5 below, the following reviews were completed and draft reports either issued to clients or nearing completion and part of the internal quality control review process within the Internal Audit service. Details of these audits and their related assurance opinion will be reported in the next Key Outcomes Report. They are as follows:

- Active Northumberland – Accounts Payable;
- Active Northumberland – Accounts Receivable;
- Active Northumberland – Budgetary Control;
- Active Northumberland – HR and Payroll;
- Active Northumberland – Procurement;
- IT Audit – Mayrise (Highways Information system);
- IT Audit – Swift (social services system);
- Affordable Housing;
- Travel and Subsistence;
- Rent Assessment and Collection; and
- Housing and Council Tax Benefit.

## 5 Main Outcomes – Audit Reports Issued during period October 2016 – April 2017

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
1	Cash and Bank	To determine whether there are adequate controls within income collection and reconciliation procedures to prevent and/or detect irregularity or error and that transactions have been processed in accordance with Finance and Contract Rules.	Significant	0	0	3
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>There are comprehensive documented procedure notes in place which are regularly reviewed and updated.</p> <p>User access to the cash receipting system is reviewed every 6 months.</p> <p>Procedures operated at Information Centres for the banking of income receipted via 'Handy Till' devices are adequately documented. Procedures were clearly displayed and staff fully aware of procedures.</p>		<p>Key matters arising were:</p> <p>There were a small number of areas where improvements could be made to enhance the control environment:</p> <ul style="list-style-type: none"> <li>• Cashier procedures at Country Park Visitor Centres are not fully documented and procedures do not provide an accurate record of cash held; and</li> <li>• Insurance limit for cash held in 'Handy Till' cash receptacles is inadequate; cash held within the Handy Tills exceeds the £500 insurance limit on a regular basis.</li> </ul>		<p>The final report was issued on 30 March 2017.</p> <p>Recommendations have been agreed with management and will be followed up in the next audit of this area.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
2	Procure to Pay (Creditors)	<p>To determine whether there are adequate controls within the creditor system to prevent and / or detect irregularity or error and that payments are made in accordance with Finance and Contract Rules and legislation. Particular emphasis will be placed on evaluating the controls over:</p> <ul style="list-style-type: none"> <li>• Ordering;</li> <li>• Receipt of goods and services;</li> <li>• Invoice approval and payment;</li> <li>• Creating and amending suppliers within the creditor system; and</li> <li>• System controls / security.</li> </ul>	Significant	0	1	3
Good Practice Highlighted		Main Issues Identified	Progress Made/Action Taken			
<p>The Accounts Payable Section monitor invoices on hold and produce a weekly report, and advice is given to managers and officers to reduce the number on hold. A monthly report is also produced which identifies invoices on hold by number of days and value for each directorate responsible for the invoice. This is provided to the relevant managers for their review and action as appropriate.</p> <p>Duplicate payment testing is completed regularly by the Accounts Payable Section.</p>		<p>The audit identified that controls in place to manage the creditors system are generally operating effectively. Key matters arising were:</p> <ul style="list-style-type: none"> <li>• For 30% of the sample tested, orders had been raised retrospectively following receipt of the invoice from the supplier;</li> <li>• Reports produced by Procurement, using historical parameters, to inform services and the Corporate Leadership Team of performance in relation to retrospective orders raised do not give a true and accurate interpretation of 'retrospective'; and</li> <li>• Goods receipting was not completed promptly for 50% of the sample tested and instances were highlighted where invoices were paid in excess of 30 days, which increases the risk of late payment interest claims from suppliers.</li> </ul>	<p>The final report was issued on 11 May 2017.</p> <p>Recommendations have been agreed with management and will be followed up in the next audit of this area.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
3	Business Rates	<p>Wide spread changes for business rates are being introduced. The audit examined and evaluated whether the systems and procedures in operation for the business rates system are fit for purpose and support the delivery of business goals.</p> <p>Key risks relating to this high value/volume area and the impacts on strategic goals such as growing the economy and attracting new businesses were examined.</p>	Significant	0	0	1
<b>Good Practice Highlighted</b>		<b>Main Issues Identified</b>		<b>Progress Made/Action Taken</b>		
<p>An established process is in place to ensure the year end billing is run in an effective and timely manner.</p> <p>Experienced officers adhere to the Northgate manual.</p> <p>There is a well-established process for the reconciliation of business rates income. The Quality Assurance team carries out daily cash reconciliations from Northgate reports to the Income Management Fund Analysis report. In addition a monthly reconciliation between the Northgate system, Income Management system and General Ledger are undertaken.</p>		<p>The audit has identified that robust controls are in place to manage the business rates system. The effectiveness of the service may be further improved by implementing an interface between Visiting Officer tablets and applicable area of the business rates system, which will improve efficiency by reducing duplication of recording visit outcomes.</p>		<p>The final report was issued on 2 June 2017.</p> <p>The recommendation has been agreed with management. Implementation of an interface to reduce duplication of recording visit outcomes has been raised at the Digital Northumberland Programme Board, however, corporately there are currently higher priority service areas with more efficiencies to be gained.</p> <p>The recommendation will be followed up in the next audit of this area.</p>		



	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
4	IT Audit– Debtors System	To determine whether controls and procedures in operation to administer the Debtors system are functioning satisfactorily and meet the needs of the organisation to maximise the collection of debt.	Significant	0	1	7
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>Formal system testing documentation is used to record the testing performed by employees within the Accounts Receivable team.</p> <p>When a user is no longer employed, managers are responsible for completing two forms, one for Human Resources to terminate their employment record and the other to Information Services (IS) to ensure all access is revoked. Typically the IS form would be missed and IS would not be notified which leads to retention of obsolete user accounts. In respect of all Enterprise Resource Planning (ERP) modules a report is regularly produced identifying users with a terminated employee record but live ERP responsibilities. This good practice reduces the risk of unauthorised access to obsolete ERP accounts.</p>		<p>Key issue identified:</p> <p>Information Services (IS) Development staff have operational responsibilities permanently assigned to the live system. Following the ERP audit in 2015/16 it was agreed that these permissions would be removed, but at the time of this audit they were still present.</p>		<p>The final report was issued on 29 March 2017.</p> <p>Recommendations have been agreed with management and confirmation of implementation will be sought in line with the standard Internal Audit process.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
5	IT Audit – Revenues and Benefits (Northgate) Systems Review	<p>To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and Council policy. In particular, to determine whether:</p> <ul style="list-style-type: none"> <li>• The systems comply with good practice legal, statutory and regulatory requirements;</li> <li>• All transactions are completely and accurately recorded and traceable;</li> <li>• Access to information and facilities is controlled and restricted;</li> <li>• The potential for fraud and error are minimised;</li> <li>• The systems provide complete and accurate management information; and</li> <li>• Upgrades to the systems are properly resourced and managed.</li> </ul>	Moderate	0	10	12
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>New users are initially provided with practical classroom training for the Northgate systems.</p> <p>Data entered in the system by new Benefits users is subject to 100% quality checks until users have been assessed by management to be proficient.</p> <p>The implementation of developments and enhancements to Northgate systems is controlled by senior management and are only taken up if they demonstrate efficiencies.</p>		<ul style="list-style-type: none"> <li>• Weaknesses in controls to configure and utilise audit log functionality were identified;</li> <li>• Controls to minimise the threat of unauthorised or inappropriate access need to be strengthened;</li> <li>• Northgate and other Secure Socket Layer Virtual Private Network (SSLVPN) remote users can access the network at any time without approval;</li> <li>• Weaknesses in password controls applied to access Northgate systems were identified;</li> <li>• There are no procedures in place to archive data from the Northgate systems; and</li> <li>• A business continuity plan has yet to be formally tested to ensure it is fit for purpose.</li> </ul>		<p>The final report was issued on 28 February 2017.</p> <p>Recommendations have been agreed with management and confirmation of implementation will be sought in line with the standard Internal Audit process.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
6	Information Services – Hardware and Software	To determine whether controls and procedures in operation over the acquisition, management, reconciliation and disposal of the Council's computer hardware and software assets are appropriate and operating effectively.	Moderate	3	2	17
<b>Good Practice Highlighted</b>		<b>Main Issues Identified</b>		<b>Progress Made/Action Taken</b>		
<p>Information Services has formal change control procedures in place for software installed, procedures are documented within the IS Change Management Report. All software change requests are logged within the Council's 'AssystNET' information and communications technology (ICT) management system. Once logged, requests are risk assessed and authorised prior to being actioned, following which testing is completed to ensure systems are operating correctly. Where possible, which applies to the majority of systems, changes are applied and tested within a test system environment prior to being applied to the live system.</p>		<p>Key matters arising were:</p> <p>There is currently no contract in place for the purchase of ICT hardware. The cumulative value of purchases from supplier MISCO, with an order value of less than £10,000, for the period reviewed was £232,767. Based on this value, a contract for ICT hardware should have been sought to obtain favourable purchase terms.</p> <p>A central record of software licence is not maintained by the Council detailing the date of purchase, the cost and number of licence agreements held. It is not possible to confirm that the Council complies with all licence agreement requirements for all software installed on its devices.</p> <p>There were a small number of devices running out of date Windows operating systems and there were devices for which Windows security updates were not being applied. As well as the vulnerabilities associated with running unsupported and/or unpatched systems, there is a risk that the Council's Public Service Network (PSN) accreditation could be affected.</p> <p>High-risk factor patches were not applied to a number of systems due to issues raised when installing. There is no mechanism in place to manage failed patches.</p>		<p>The final report was issued on 10 January 2017.</p> <p>Recommendations have been agreed with management and confirmation of implementation will be sought in line with the standard Internal Audit process.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
7	Schools Deficit Budgets	To review processes and procedures in place with regard to monitoring school balances, specifically deficit budgets, and to liaise with relevant officers in determining a future assurance process This should reduce financial risk and protect the Local Authority.	N/A	0	3	0
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>A recent process developed by Corporate Finance to ensure budgets are monitored on a monthly basis irrespective of level of the Service Level Agreement procured has been put in place. This should highlight those schools falling in or out of a 'causing financial concern' category which will enable professional and experienced help and advice from Corporate Finance to be targeted at those schools in most need.</p>		<p>Key issues were:</p> <p>A detailed review by Corporate Finance of all school balances identified 28 first/primary schools and 9 secondary schools as causing financial concern.</p> <p>It was found a number of schools identified as causing financial concern procured only the lowest level of financial management support SLA which may indicate budget monitoring is not sufficiently robust within some of these schools.</p> <p>A review of 5 schools either due to close or under reorganisation showed total local account (imprest) advances of £374k and total deficit budgets amounting to £1,583k (as at August 2016). A recent Internal Audit review of local accounts highlighted a lack of control within schools in relation to administration of local accounts which may contribute to poor budget monitoring and a potential increase in a deficit budget position.</p>		<p>The final report was issued on 5 January 2017.</p> <p>Recommendations have been agreed with management and confirmation of implementation will be sought in line with the standard Internal Audit process.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
8	Children's Services – Adolescent Accommodation	<p>To examine and evaluate the procedures and controls in place within the Supported Accommodation Framework. The areas examined were:</p> <ul style="list-style-type: none"> <li>• Processes for identifying and assessing suitable accommodation;</li> <li>• Ongoing review and monitoring of placements;</li> <li>• Bookings, contracts and payment arrangements;</li> <li>• Compliance with relevant legislation and Council policies; and</li> <li>• Record keeping.</li> </ul>	Significant	0	4	0
Good Practice Highlighted		Main Issues Identified	Progress Made/Action Taken			
<p>The Supported Accommodation Framework provides a well defined and transparent process to assist the Council in its duty to provide supported accommodation services for young persons. Comprehensive procedural documentation exists to govern the application of the Framework and, as costs are pre-agreed, managers are well equipped to monitor and maximise value from their budgets. In addition, adequate documentation exists to record decisions made in relation to accommodation arranged via the Framework.</p>		<p>The main issues with a specific supported accommodation case reviewed were failures to comply with the Council's Finance and Contract Rules as follows:</p> <ul style="list-style-type: none"> <li>• no official orders were issued for the arrangement at the accommodation reviewed;</li> <li>• there was a lack of documentation to support payments made;</li> <li>• details of the contract(s) for accommodation were not recorded in writing, nor provided to the Shared Head of Procurement as required, where the value exceeds £10k; and</li> <li>• the reasons for not obtaining and considering 3 quotes when arranging the placement were not documented and authorised.</li> </ul>	<p>The final report was issued on 2 February 2017.</p> <p>Action was taken by the service to address the issues raised at the time of the Audit, this included:</p> <ul style="list-style-type: none"> <li>• Introduction of a new checklist to ensure consistency of recording of actions;</li> <li>• New management approval process to ensure purchase orders are raised correctly;</li> <li>• An updated accommodation panel process to incorporate a review of any expenditure exceeding, or likely to exceed £10k; and</li> <li>• The High Level Resource Panel increased their oversight duties to include budget monitoring of all expenditure, with particular reference to any above £10k.</li> </ul>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
9	Schools – Internal Audit Healthchecks	<p>To provide an independent assurance source to governors and headteachers that processes and controls are functioning satisfactorily, are in accordance with legislation and to provide an opinion to management on the system of internal control in place.</p> <p>The healthcheck assists governors in the completion of their Schools' Financial Value Standard self-assessment.</p> <p>3 first school healthcheck reports have been issued during the period 1 October 2016 to 30 June 2017.</p>	Limited Significant Significant	0 0 0	20 11 2	3 1 2
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>Best practice found at schools during this and previous years is shared by Internal Audit with other schools such as schools regularly reviewing contracts to establish if value for money was being obtained and the introduction of an electronic scanning process for recording assets.</p>		<p>Key issues arising across these healthchecks were:</p> <ul style="list-style-type: none"> <li>• The scheme of delegation to the headteacher and the pay policy had not been approved by governors;</li> <li>• An up to date register of governors and staff pecuniary interests could not be provided;</li> <li>• Results of a recent benchmarking exercise had not been sufficiently reviewed or reported to governors;</li> <li>• There was no evidence of approval of orders for goods or services and no evidence of payment authorisation;</li> <li>• VAT on some petty cash items was not accounted for;</li> <li>• The school fund had not been administered in line with guidance; and</li> <li>• A full inventory of assets was not in place.</li> </ul>		<p>Feedback was given at the end of each visit to the headteacher, finance/administrative assistant and the chair of governors.</p> <p>Final reports were issued in February to April 2017.</p> <p>All recommendations have been agreed and confirmation of implementation will be sought in line with the standard Internal Audit process.</p>		

## **6 Confirmation of Implementation of Recommendations and Evidence Checking**

- 6.1 Internal Audit reports issued during the period October 2016 – June 2017 included 3 high priority, 54 medium priority, and 49 low priority recommendations. All recommendations were agreed to be implemented by managers.
- 6.2 As part of the Internal Audit process, managers are contacted usually after 6 months to confirm implementation of high and medium priority recommendations. Where it is considered appropriate, for example where a limited or no assurance opinion has been issued, a follow up audit is scheduled and evidence checked as part of the assurance process. The assurance opinion originally given is reviewed and may be re-evaluated dependent on the outcome of the follow up review.
- 6.3 An update regarding progress with implementation of recommendations will be included in a future report to Audit Committee.