



Northumberland
County Council

Shared Internal Audit and Risk Management Service

Key Outcomes from Internal Audit Assignments (July 2017 - March 2018)

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 on an interim basis 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 July 2017 – March 2018. 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 (May 2018)

- 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 2017, and work performed from the approved Strategic Audit Plan for 2017/18, 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 The Council's Assurance Framework has four levels of assurance, outlined in more detail at point 4 below. In this report, details of seven audit assignments are presented. An opinion was not applicable for one of the assignments and one of the assignments provided Moderate Assurance, a classification discontinued for audits after April 2017 but in this case the draft report had been issued prior to April 2017. Of the remaining five assignments three (60%) were 'significant 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.
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.

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 in the following table:

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:
- Digital Northumberland Strategy Board;
 - Government Digital Services;
 - Information Governance Group;
 - Oracle Cloud Project; and
 - Troubled Families Partnership Meetings.
- 4.6 Internal Audit has also supported nine special investigations and management requests.
- 4.7 Regarding the Council's schools, the primary client for audit work is the Executive Director of Finance & Section 151 Officer / Deputy Chief Executive as Section 151 Officer/Chief Finance Officer (CFO). CFOs are 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 2018.

4.8 In addition to the Internal Audit final reports issued during the period July 2017 to March 2018 which are detailed in Section 5 below, the following reviews have now been completed and draft reports have either been issued to clients or are nearing completion and are 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 which will record those audits finalised between April 2018 and September 2018. They are as follows:

- Children's Safeguarding Improvement Plan
- Creditor Payments;
- Highways Recoverables Follow-up;
- Housing Stores;
- Part III Accounts;
- Stores Partnership – Post Contract Implementation; and
- Travel and Subsistence.

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5 Main Outcomes – Audit Reports Issued during period July 2017 – March 2018

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
1	Housing Benefit (HB) and Council Tax Support (CTS)	<p>To ascertain whether the systems and procedures for the administration of key areas of the HB and CTS function are operating satisfactorily and are in accordance with legislation and Council Policy. To provide assurance to the Authority on the following key areas:</p> <ul style="list-style-type: none"> • Arrangements in place to manage the introduction of Universal Credit; • The procedures in place to ensure HB BACS payments are correct; • A review of the Key Performance Indicators, including monitoring and assessment of their effectiveness particularly with reference to the processes in place for reconsiderations and appeals; • A review of the Quality Assurance arrangements; • A review of the current CTS scheme; and • The processes and procedures involved in the recovery of HB overpayments. 	Full	0	0	0
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
The service has responded well to significant challenges such as the introduction of Universal Credit which will replace HB in Northumberland by September 2018, monitoring resource implications and preparing an action plan.		There are well established controls to administer Housing Benefit and Council Tax Support, which are consistently applied. This is reflected in the good performance for processing new claims and changes in circumstances which, as reported to the Department for Work and Pensions (DWP) for the first quarter of 2017/18, were six and four days respectively, well below the national average of 23 days for new claims and eight days for changes.		The final report was issued in April 2018. No recommendations were made.		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
2	Housing Income Collection	<p>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.</p> <p>An examination of procedures to determine whether they promote the prompt collection of income and minimise bad debt and write-offs.</p>	Limited	0	10	8
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>Effective processes and verification checks were in place to correctly amend the rental charges for the 2017/18 financial year.</p> <p>Corporate Finance were promptly notified of decisions to write-on debts in order to ensure they are included in the general ledger for accounting purposes.</p>		<p>Key issues were:</p> <ul style="list-style-type: none"> No automated escalation process to identify when a former tenant fails to make a payment and/or the next recovery action is due; An unresolved glitch in the rent collection system in relation to direct debit payment arrangements has resulted in delayed, or failed, payments in respect of former tenant arrears; Delays in sharing void inspection sheets preventing prompt recovery action; Labour intensive validation checks carried out to confirm a value before an arrears letter is issued; No documented mechanism to write-off irrecoverable housing related debt; and Analysis of the Former Tenant Debt Schedule identified inaccuracies in the age of several of the debts, and one rechargeable repair debt was overstated by approximately £2,200. 		<p>The final report was issued on 9 August 2017.</p> <p>All recommendations have been agreed with management and will be followed up as part of a dedicated review in 2018/19.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
3	Affordable Housing Delivery	To provide assurance that the Affordable Housing Delivery Programme is fit for purpose.	Moderate	0	4	0
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>The review highlighted a variety of mechanisms for identifying new initiatives and new sources of funding for the delivery of affordable housing such as:</p> <ul style="list-style-type: none"> • Regular interrogation of the HCA website by the affordable housing team; • Quarterly meetings with the HCA, where new initiatives are discussed; • Central Government briefings which go to senior officers and the portfolio holder; and • Research and review of the Government website. 		<p>Although there are processes currently in place to monitor delivery of affordable housing across the County, changes to delivery models will necessitate the need to redesign the monitoring and reporting process to ensure senior officers and members are regularly informed of current targets, revised targets and outcomes.</p> <p>There was no compiling of information or reporting process in place in relation to providing information on the added value element relating to employability and skills.</p> <p>Reference to the number of people registered on Homefinder within the sub region recorded within business cases for affordable housing delivery did not truly reflect the numbers of families in need as some may be able to access homes from private landlords and pay market rent. A review of allocations for 3 recent affordable housing projects at Embleton, Shilbottle and Amble showed that from an overall total of 84 new builds, 28 (33%) were let to priority band 3 families defined as those who are adequately housed.</p>		<p>The final report was issued on 3 July 2017.</p> <p>All recommendations have been agreed with management and will be followed up as part of a dedicated review in 2018/19.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
4	Mayrise System Review	To determine whether controls and procedures in operation for the Mayrise system are functioning satisfactorily and meet the needs of the Council to effectively manage its Highways Maintenance function.	Significant	0	4	11
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
Audit logs can be easily interrogated and provide the user with sufficient information. The system logs key information such as time and date of action; field affected; new value; old value; and the user completing the action.		<p>Key matters arising were:</p> <ul style="list-style-type: none"> • A small number of users were identified with access rights that were in excess of their business need; • Password controls were weak. Passwords were not required to have a minimum number of characters, password complexity was not applied and passwords do not expire; and • The software hosting service agreement between the software vendor and the Council contains a clause which does not meet the Council's requirements under the current Data Protection Act and the General Data protection Regulation which comes into force on 25 May 2018. 		<p>The final report was issued on 30 January 2018.</p> <p>All recommendations have been agreed with management and will be followed up as part of a dedicated review in 2018/19.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
5	Swift System Review	To determine whether controls and procedures in operation to administer the Swift system are functioning satisfactorily and meet the needs of the organisation.	Significant	0	5	7
Good Practice Highlighted		Main Issues Identified	Progress Made/Action Taken			
<p>Areas of good practice were identified in relation to system testing, housekeeping, training and management reporting procedures.</p>		<p>Key matters arising were:</p> <ul style="list-style-type: none"> The software provider has announced plans to cease support for its social care systems in 2020. Consequently, implementation of Adults Integrated Solution (AIS), a front-end system designed to integrate with the Council's existing Swift databases was postponed in December 2016. The AIS Project Board has decided to seek a new system to replace Swift; Inadequate auditing functionality which does not provide user friendly reports that would allow for timely identification of user activity; A lack of separation of duties with respect to system administration of Swift in the live environment. Best practice suggests system developers should not have access to the live environment; There has been no archiving or deletion of electronic records stored in Swift since its implementation in 2000/01. A review of retention guidelines specific to Adult Care confirmed Swift contains records that have exceeded their retention schedules; and There is no secondary firewall in place to manage NHS network traffic to Swift, which is hosted on the Council's network. Loss of the firewall could disrupt access to Swift for up 48 hours. 	<p>The final report was issued on 19 September 2017.</p> <p>All recommendations have been agreed with management and will be followed up as part of a dedicated review in 2018/19.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
6a	Schools Thematic ICT Review – Central Report	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of six schools on a risk assessed basis; this theme being ICT Assurance.	<p>Limited</p> <p>The results from the individual schools visited are summarised at table 6b below.</p>	3	6	8
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>The following areas of good practice were identified:</p> <ul style="list-style-type: none"> • All wireless networks examined were configured with industry standard encryption to minimise the risk of unauthorised access; • Where schools permitted Bring Your Own Device (BYOD), access to the internet was provided but without the potential to access main school networks; • Schools are provided with specialist software to monitor keywords and phrases in use within schools providing real-time email alerts; • Some schools have implemented Mobile Device Management software (MDM) to control iPads and other mobile devices; and • Access to the internet from mobile devices such as iPads requires the user to login using their unique username and password. 		<p>Key Matters arising were:</p> <ul style="list-style-type: none"> • Weaknesses identified in the systems of control to protect devices against malware threats, which may result in loss of data and/or disruption to ICT systems; • In the absence of a school network, schools may not be able to effectively manage and maintain ICT devices; • Weaknesses were identified in the strength of network passwords, which varied across schools tested increasing the risk of unauthorised access to schools' networks and data; • Weaknesses were identified in the security applied to mobile devices, which was generally insufficient to minimise the risk of unauthorised access to potentially sensitive pupil data; • Content monitoring systems were not configured for all devices at all schools tested; and • Systems hosted internally when accessed remotely and externally that hold sensitive personal data were not protected with two-factor authentication, increasing the risk of unauthorised access. 		<p>The final report was issued on 30 January 2018.</p> <p>All recommendations have been agreed with management and will be followed up as part of a dedicated review in 2018/19.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
6b	Schools Thematic ICT Review – Six individual school reports	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of six schools on a risk assessed basis; this theme being ICT Assurance.	Limited Limited Limited Limited Limited Significant	0 1 0 2 1 0	5 1 6 6 5 2	3 3 2 1 1 3
Good Practice Highlighted		Main Issues Identified	Progress Made/Action Taken			
See 6a above.		This table provides the assurance opinion and recommendations from the six schools visited as part of this themed review. See 6a above for key issues arising across these reviews.	<p>Feedback was provided at the end of each visit to the headteacher.</p> <p>Final reports were issued in January 2018.</p> <p>All recommendations have been agreed with management and will be followed up as part of a dedicated review in 2018/19.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
7	Internal Audit Briefing Note - Schools' Website Compliance	To undertake a review of schools' websites to determine whether their content met statutory requirements and guidance issued in June 2017 by the Department for Education (DfE).	Not applicable	n/a	n/a	n/a
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
Whilst anomalies were identified across the sample of websites examined, some good practice in respect of Special Educational Needs and Disability (SEND) was identified.		<p>Internal Audit identified several anomalies during the review with the most significant summarised below:</p> <ul style="list-style-type: none"> • Weaknesses in the signposting of required SEND information; • 30% of schools not compliant with the requirement to signpost the Council's 'Local Offer' in relation to SEND; • For the majority of school websites reviewed it was not possible to locate Equality Objectives, required under the Equality Act 2010; and • A review of Pupil Premium, PE and Sport Premium and Year 7 Catch-Up Premium identified various anomalies including failures to provide key information; details of the premium awarded, a full breakdown on spend, and impact on pupils. <p>Internal Audit have provided feedback to the schools reviewed and recommended to management that discussions between the Council and all schools take place to highlight the findings from the review.</p>		Briefing note issued in September 2017. No recommendations made.		

6 Confirmation of Implementation of Recommendations and Evidence Checking

- 6.1 Internal Audit reports issued during the period July 2017 - March 2018 included 7 high priority, 54 medium priority, and 47 low priority recommendations. All recommendations were agreed to be implemented by managers.
- 6.2 As part of the Internal Audit process, managers are contacted after 6 months to confirm implementation of high and medium priority recommendations. Where it is considered appropriate, usually 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 During this financial year, Internal Audit are reviewing the process, benefitting from shared learning within the Shared Internal Audit service and against best practice with a view to ensuring recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.
- 6.4 A dedicated review will be undertaken in 2018/19 regarding progress with implementation of recommendations. Outcomes from this review will be presented to Audit Committee.