



Northumberland
County Council

Shared Internal Audit and Risk Management Service

**Key Outcomes from Internal Audit
Reports Issued Between April 2018 and
October 2018**

November 2018

1 Introduction – Governance Framework

- 1.1 Internal Audit is an independent, objective assurance function designed to add value and improve an organisation’s operations. Under the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to help an organisation accomplish its objectives by “bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
- 1.2 It is important that the Audit Committee receives regular updates on key findings and governance themes from Internal Audit’s work. This is also emphasised in the PSIAS which requires the Chief Internal Auditor to provide an annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control, and to report on emerging issues in year.
- 1.3 In our organisation, the Chief Internal Auditor’s formal opinion is reported to the Audit Committee each May, timed to support preparation of the Authority’s Annual Governance Statement. ‘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 were finalised in consultation with management and issued in the seven month period April 2018 to October 2018. Reporting on this period allows management the opportunity to have implemented and embedded recommendations; and Internal Audit to have then reviewed this implementation and to form a judgement on whether the control issues identified have been satisfactorily addressed. Information has been provided on the level of assurance for each audit (described below), the number of recommendations made (classified according to priority), areas of good practice identified, and main findings. The progress made/action taken by management in respect of key issues identified from each audit has also been included. As discussed at previous meetings of the Audit Committee, Internal Audit has also followed up and evidence checked reported progress, on a sample basis weighted according to priority and materiality. In some cases, due to the target dates for implementation of recommendations, it is too early to report on action taken. In these cases, recommendations will be followed up in accordance with Internal Audit’s agreed processes and reported to the May 2019 Audit Committee.
- 2.2 It is intended that by providing regular reports on key outcomes from Internal Audit’s work, this will enable the Audit Committee to develop an on-going awareness of the soundness of the framework of governance, risk management and control, in addition to receiving the Chief Internal Auditor’s annual opinion on this matter each May.

3 Opinion on the Framework of Governance, Risk Management and Control (November 2018)

3.1 On the basis of Internal Audit work performed and described in this report, the Chief Internal Auditor’s opinion is that the organisation’s internal systems of governance, risk management and control are **satisfactory** at this stage in the year. This is a positive opinion for the organisation.

3.2 In this report, details of ten audit assignments are presented. An opinion was not applicable for one of the assignments. Of the nine remaining, six (67%) were of a ‘significant assurance’ opinion classification, and three (33%) were given a ‘limited assurance’ opinion. No ‘critical priority’ or ‘high priority’ recommendations were made. At the time of writing, a number of additional audit reports are in the process of finalisation/issue to our audit clients. These reports will be included in the next report to the Audit Committee, but the findings do not change our opinion on the framework of governance, risk management and control at this stage in the year.

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 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 Authority and responding to queries on the operation of such systems, Internal Audit has a significant and increasing role in advising on new systems within the Authority. Whilst the time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit’s resource, in that assurance is obtained that effective controls are incorporated into new major systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. Internal Audit has supported the following Project Boards (in a programme assurance role) and Working Groups during the period under review

- Oracle Cloud Project;
- Digital Northumberland Programme Board;
- Information Governance Working Group; and
- Troubled Families Partnership Meetings.

4.6 Internal Audit has also supported a significant number of special investigations and management requests in this time period. Key themes arising from this work will be included in Internal Audit’s annual report.

IA/AHM/KM/CH
November 2018

5 Main Outcomes – Audit Reports Issued during period April 2018 – October 2018

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Public Services Network (PSN) Code of Connection Compliance Briefing Note	To provide management with assurance and progress with the Information Services' gap analysis response within the 2018 PSN Code of Connection.	N/A	N/A	N/A	N/A	N/A
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<p>Mobile device management software has been deployed across portable devices that encrypts data and allows devices to be remotely wiped should they be lost or stolen.</p> <p>IS has restricted the type of devices that are able to connect to the Council's network. Removable media is restricted to trusted devices that, in the case of USB flash drives, are encrypted to protect data in transit. Other secure methods for transferring data include CryptShare.</p>		<p>Information Services' gap analysis response within the 2018 PSN Code of Connection submission states "All IA conditions presenting risk to PSN have been mitigated as detailed on the PSN remediation plan". The audit found that this is not considered to be an accurate statement as action to address a significant number of vulnerabilities remains outstanding. Although responses within the remedial action plan are a fair representation of controls and procedures either under development or planned to be implemented across the Council's ICT network infrastructure and associated devices there are a number of vulnerabilities that need to be addressed. A lack of progress on key issues, including the replacement of unsupported applications, that were included in the 2017 remedial action plan and reported to the PSNA as underway, may result in increased scrutiny of the 2018 submission.</p> <p>The PSNA require that critical vulnerabilities should be patched within 14 days, important vulnerabilities should be patched within 30 days and all others should be patched within 60 days. The 2018 remediation plan includes timescales for a number of high priority vulnerabilities that extend to April 2019.</p>		<p>Not applicable – no recommendations were made.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Preparation for GDPR	To review arrangements in place to prepare for the introduction of GDPR which replaced Data Protection Directive 95/46/EC and was enforced across all European Union (EU) member states by 25 May 2018 after which penalties associated with non-compliance increased in comparison to the United Kingdom's Data Protection Act (DPA) 1998.	Limited	0	0	15	6
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<ul style="list-style-type: none"> Key decision makers within the organisation have been made aware that the law has changed to GDPR and of the likely impact. GDPR has been risk assessed and recognised within the Council's corporate risk register and project risk register. The risk, existing and new controls are appropriate. Link officers have been identified for all service areas and received GDPR training in November 2017 or January 2018. Training for Executive Directors and Directors was undertaken by an external provider in June 2018. All existing policies and procedures within the Information Governance Framework were reviewed and updated to reflect changes required by GDPR. The Council's breach policy has been reviewed and a Google form has been developed to report breaches/near misses. 		<p>GDPR is a new area which is likely to present challenges to all local authorities. Issues to consider and assess further by the County Council's management include:</p> <ul style="list-style-type: none"> Resourcing of additional demands; Effectiveness of the Information Asset Register; Relationships with suppliers and partners; Schools may not have effective arrangements in place to support GDPR compliance; Complying with requests from data subjects to have their personal data erased; and Consent. 		<p>Management have self-certified one medium priority and one low priority recommendation as implemented.</p> <p>The medium priority recommendation self-certified as complete relates to information held within corporate systems being made available in a format to comply with GDPR requirements. Information Services have confirmed they are confident that they can now provide this if any such request was received.</p> <p>The target dates for implementation of the remaining recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Internet	<p>To determine whether systems and procedures in operation protect the Council's data, systems and users from risks associated with use of the internet. In particular whether:</p> <ul style="list-style-type: none"> the system is protected against risks associated with connecting to external networks; there is a clear internet use policy in place; the system is effectively supported and maintained; the system is operating adequately and effectively to ensure constant internet access; and the system provides comprehensive management information. 	Significant	0	0	3	6
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<p>Security – Critical internet infrastructure is configured with maximum security and is maintained by skilled personnel.</p> <p>User accounts – The process for creating new user accounts is effective and ensures maximum control and security.</p> <p>Business Continuity – The contracts in place ensure adequate cover.</p> <p>Policies – Policies are readily available on the intranet.</p> <p>Management Information – The management tools currently in use provide Information Services with a clear overview and highlight any issues.</p>		<ul style="list-style-type: none"> A large volume of calls is being logged each month by users who have no internet access. The Council is experiencing issues with the internet running slowly, often causing websites not to load. There are multiple instances of Internet Explorer 8 (IE8) in use to host business systems. IE8 was unsupported from January 2016 with all security patches ceasing. 		<p>The target dates for implementation of the remaining recommendations have not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.</p> <p>Management have provided an update in regard to two of the medium priority recommendations as follows:</p> <ul style="list-style-type: none"> Issues relating to current capacity of internet lines and network connections will continue to be monitored and acted on appropriately. IT has been liaising with BT with regard to internet outage and twenty five sites have been identified and are in the process of being fixed. 			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Payment Card Industry Data Security Standards (PCI DSS)	To determine whether systems and procedures in operation for obtaining, recording, transmitting and retaining cardholder data are functioning satisfactorily and are in accordance with legislation and Council policy and comply with the PCI DSS.	Limited	0	0	5	10
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
Income Management undertake an annual review of accounts and devices (managed by Capita) used for PCI to ensure information is accurate. Income Management ensure a PCI disclaimer form is completed annually by every employee that processes payments. Accounts without an updated, signed or new PCI disclaimer form are disabled.		<ul style="list-style-type: none"> Ensuring up to date Anti-Virus (AV) definitions are applied across all devices and addressing all identified potential vulnerabilities; The Council does not have a central training resource with specific responsibility for PCI employee training; and The Council does not have a resource with specific responsibility for corporately monitoring service areas and ensuring processing of card payments meets PCI DSS requirements; Ensuring the accuracy of records around PCI compliance. 		<p>Income Management have self-certified that two out of the three low recommendations within their control have been addressed.</p> <p>The target date for implementation of the remaining recommendations has not yet been reached and it is therefore too early to report on action taken. The recommendations will be followed up in accordance with Internal Audit's agreed processes.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Business Continuity Management	To review the arrangements in place for Business Continuity Management (BCM) across the Council and to assess the ability to maintain continuity in the event that a business disruption was to occur.	Limited	0	0	6	12
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<p>The Civil Contingencies Team have developed BCM policies using good practice set out in the International Standard for Business Continuity Management ISO 22301 and Business Continuity Institute Good Practice Guidelines 2013. Guidelines were updated in 2018, the Civil Contingencies Team is aware of this and policies are to be reviewed to ensure they are aligned with new guidelines.</p>		<ul style="list-style-type: none"> • Business Impact Analysis (BIA) and Business Continuity Plan (BCP) documents have not been produced for all Council services. BCM is not effectively embedded throughout the Council; • A number of issues were identified with BIAs and BCPs reviewed during the audit. For example, BIAs and BCPs were incomplete or did not contain sufficient information to respond to a BCP incident. Three of four plans tested were out of date; • In the event of an ICT failure or power outage, none of the BCPs tested identified the use of manual operations; and • There is currently no corporate BIA and BCP for some key sites, which host several of the Council's critical business functions. In the event of a full or partial loss of these buildings, a coordinated corporate plan would be required to ensure that critical activities were prioritised and could continue to function. 		<p>Due to the target dates for implementation of recommendations, it is too early to report on action taken. Recommendations will be followed up in accordance with Internal Audit's agreed processes.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	Part III Accounts	To examine, evaluate and report on whether systems and procedures in operation for the Part III Accounts system are fit for purpose and support delivery of business goals.	Significant	0	0	1	3
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<p>An established process is in place and standard documentation completed for the client assessment.</p> <p>Financial assessment reviews are undertaken annually.</p> <p>Quarterly reports have been used proactively to undertake an exercise to identify and review historic debt, and progress to write off where appropriate.</p>		<p>The Part III Accounts system is a set of procedures and processes that calculate and record the financial transactions relating to Social Services clients. Each client has an account which groups together their transactions showing the processed debits and credits, together with the balance. The main issue identified within the system was that personal allowances in the Part III system and e-Business Suite currently cannot be efficiently reconciled, due to a specific issue during a previous year.</p>		<p>Due to the target dates for implementation of recommendations, it is too early to report on action taken. Recommendations will be followed up in accordance with Internal Audit's agreed processes.</p> <p>However, management have advised that a new process has now commenced which addresses the reconciliation issue going forward.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	Children's Safeguarding Improvement Plan Review	To provide an independent assessment of the fitness for purpose of Northumberland's Local Authority Improvement Plan, taking into account the carry forward of any residual actions from the original Ofsted Single Inspection Framework (SIF) Improvement Plan and changes resulting from the recommendations originally made in the Ofsted report in 2016.	Significant	0	0	3	4
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
Regular monitoring of improvement plans and individual development elements takes place. There is evidence of good overall engagement and involvement of relevant managers in the process of progressing elements of the ongoing revision of procedures and overall development of the service.		<ul style="list-style-type: none"> Additional enhancements to quality assurance of recommendation monitoring should be considered, along with verification checking of completed documentation; Final approval of an amended governance process should be formally obtained, which will allow a Quality and Compliance sub-group to approve details of proposed audits and the recording of this on an audit register by the Governance team. 		<p>There has been significant progress made towards the implementation of a large number of changes designed to improve the overall performance and robustness of the Children's Social Care system at the Council. This is evidenced by the continued revision of procedures and practices and the evolution of the improvement and service plan over the period since the initial Ofsted inspection in 2016.</p> <p>Management have self-certified that two medium priority and all four low priority recommendations have been implemented, with the target date for the remaining medium priority recommendation not yet reached.</p> <p><i>Internal Audit selected this service area for evidence checking and was able to confirm that the two medium priority recommendation self-certified as implemented have been implemented.</i></p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
8	Payroll	To evaluate the controls within the payroll system designed to prevent and / or detect fraud, irregularity or error, and to ensure that transactions are processed in accordance with Council policy, Financial Regulations, legislation and the requirements of external bodies such as HM Revenues and Customs.	Significant	0	0	0	4
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<p>All changes to standing data are subject to quality assurance checks and evidence to support changes and the quality assurance process are maintained.</p> <p>An array of exception reports, produced during each payroll run, ensure detailed checks are undertaken to identify and resolve any anomalies.</p>		<ul style="list-style-type: none"> Termination Statements were not always completed by managers, which creates the potential for overpayments to occur; Termination Checklists were not always completed by Employee Services; Overpayments due to late notifications from service areas. Employee Services have taken steps to raise awareness with service areas but late notifications continue to be the main reason for overpayment; and Managers of employees in receipt of 'home as office' allowances were required to provide a business case for it to continue. Business cases could not be provided in respect of all allowances in place. 		<p>Management have self-certified two recommendations as having been implemented. The target dates for the remaining two recommendations have not yet been reached and will be followed up in accordance with Internal Audit's agreed process.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
9	Creditors	To ascertain whether the systems and procedures in operation for the payment of creditors are functioning satisfactorily, are in accordance with legislation and the stated priorities within the Corporate Plan.	Significant	0	0	3	3
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<p>The audit has been completed by reviewing higher level internal controls. No specific good practice was identified in those areas reviewed.</p>		<ul style="list-style-type: none"> • A review of the payment of Agency invoices and fees highlighted that a substantial number of transactions are automatically approved and so are not subject to any specific authorisation by relevant managers or budget holders; • A new travel system is being trialled. It is recommended that consideration is given to setting limits in relation to purchases and when users are becoming close to authorisation limits; • There are currently no reports which can be produced to assist with monitoring of spend, although some data is due to be provided directly from the supplier in the near future; and • Duplicate Payments Reports have been historically produced. The last set of reports actioned by the Accounts Payable section was in January 2017. A set of reports was produced in January 2018 which, due to staff absences, has not yet been reviewed. Previous reviews have resulted in the Council recovering monies from suppliers. 		<p>Management have self-certified one medium recommendation and two low priority recommendations as having been implemented.</p> <p>Evidence of new procedural guidance which has been issued to all relevant managers has been viewed. Compliance and impacts from this will be reviewed within the next creditors system review.</p> <p>The remaining three recommendations have not yet reached their target date. Recommendations will be followed up in accordance with Internal Audit's agreed process.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
10	Council Tax	To determine whether the systems and procedures in operation for Council Tax collection are functioning satisfactorily, are in accordance with legislation and the stated priorities within the Council Plan.	Significant	0	0	0	4
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
Audit testing identified that for the accounts examined, the Northgate system was updated fully and promptly following any amendments or actions such as valuation listing amendments and refunds. The Information at Work system held all relevant data for the accounts examined, and was well maintained.		<ul style="list-style-type: none"> The Council Tax performance management process is robust, however the process is not formally documented and responsibilities are not allocated to relevant posts; and Council Tax training and procedural documents were stored in various locations and at various stages of review. Storage of these documents should be reviewed and rationalised. 		Due to the target dates for implementation of the recommendations, it is too early to report on action taken. Recommendations will be followed up in accordance with Internal Audit's agreed processes however, only Low priority recommendations were made.			

6 Confirmation of Implementation of Recommendations and Evidence Checking

6.1 Internal Audit reports issued during the period April 2018 to October 2018 included 36 medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these 36 recommendations, four have been self-certified by management as fully implemented and 32 have not reached their target dates. In relation to the four medium priority recommendations self-certified as implemented, Management within Information Services have accepted the low risk in relation to information held within corporate systems being made available in a format to comply with GDPR requirements and have confirmed they are confident they can provide this if a request was received. Evidence checking has been undertaken in respect of the remaining three recommendations self-certified as implemented.

6.2 Details of those recommendations subject to evidence checking by Internal Audit are detailed in section 5 of this report, above. Summary information regarding the sample of evidence checking undertaken is provided in the table below.

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action	
		No.	%	No.	%
Medium	3	3	100%	0	0%
Total	3	3	100%	0	0%

6.3 Further work on how best to measure the implementation of agreed recommendations is scheduled to take place in quarter four of 2018/19 and will be reported to Audit Committee in due course.