



**Northumberland**  
County Council

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

### **Key Outcomes from Internal Audit Assignments (November 2018 – April 2019)**

# 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 received 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 have been finalised, in consultation with management, and issued in the period from November 2018 – April 2019. 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. It is too early to report on action taken for a number of recommendations as the target dates have not yet been reached. In these cases, recommendations will be followed up in accordance with Internal Audit’s agreed processes which are being reviewed during 2019/20.
- 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 (May 2019)

- 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 2018, and work performed from the approved Strategic Audit Plan for 2018/19, 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 In this report, details of four audit assignments are presented. Of the four assignments two (50%) were ‘significant assurance’ opinion classification and two (50%) were ‘limited assurance’ opinion. No ‘critical’ 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 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 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 / working groups during the period under review in a programme assurance role:

Oracle Cloud Project; and  
Digital Northumberland Programme Board.

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

IA/AHM/KM/CH  
May 2019

## 5 Main Outcomes – Audit Reports Issued during period November 2018 – April 2019

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
1	Stores Partnership – Post Contract Implementation	To continue to provide support to the stores review and implementation of the contract with the contractor. In particular, to support management of the contract through a post implementation review aimed at giving a level of assurance regarding controls in place for the secure issue, accurate charging and correct accounting for items of stores, in addition to the processes and procedures for the subsequent reporting of performance by the contractor against the contract terms and conditions.	Significant	0	8	3
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
Regular meetings are held between Authority staff and the contractor to monitor the contract on an ongoing basis. This provides a formal opportunity to promptly consider and address issues affecting either partner, as they emerge.		<p>There has been no assessment of risk undertaken on the stores arrangement for a number of years.</p> <p>Due to an incomplete audit trail, the budget coding of some items purchased could not be confirmed as correct.</p> <p>There is a lack of buy-in to the contract from some areas of the Place Directorate.</p> <p>Senior managers do not currently receive regular updates on the contract and its performance.</p> <p>Errors were identified with regard to the accuracy of management information provided by the contractor.</p> <p>The contractor agreed to provide rebate of 0.5% on sales for each year of the contract, to be used on community projects. To date, this rebate has not been credited to the Authority's bank account for each completed year of the contract.</p>		<p>Management have self-certificated two medium recommendations as having been implemented.</p> <p>The remaining recommendations have not yet reached their target date.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
2	Bacs Payments Schemes Limited (Bacs) System Review	To determine whether the systems and procedures in operation for the Bacs system are functioning satisfactorily and are in accordance with legislation and Council policy.	Limited	0	5	13
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<ul style="list-style-type: none"> <li>The Bacs application (PT-X) enforces reasonable password complexity with settings which, when combined with the use of smartcards and tokens, creates a secure authentication process.</li> <li>All new developments and/or enhancements on the Bacs system are subject to consultation with key contacts across all service areas that process Bacs and AUDDIS transmissions before being incorporated and prioritised within the Information Services task list. Implementation of future developments and enhancements are co-ordinated by appointed system administrators within the Cashiers and Income Management Team in consultation with Information Services and Bottomline Technologies, suppliers of the Bacs application.</li> </ul>		<ul style="list-style-type: none"> <li>A review of Bacs transmissions for September 2018 identified several users who were completing the full end to end process. Internal Audit had previously been advised that, although users had both the Approve and Submit roles allocated within their profiles, the application would not allow the same user to perform both roles on the same transmission. Discussion with Bottomline Technologies confirmed that currently all users would be able to complete end to end transmissions within their user profiles increasing the potential for input errors to remain undetected resulting in incorrect transmissions.</li> <li>The Authority has identified but not tested contingency arrangements should the normal Bacs transmission process be unavailable. Neither of the proposed contingency arrangements provides full resilience for all outgoing and incoming payment transmissions.</li> <li>A PT-X Security Pack purchased in April 2018, that includes functionality to enhance the security of Bacs transmissions by enforcing an effective segregation of duties, has not been implemented.</li> </ul>		<p>Management have self-certificated six low recommendations as having been implemented.</p> <p>The remaining recommendations have not yet reached their target date.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
3	Rent Assessment and Collection	<p>To determine whether Housing rent and Service Charges are accurately updated to reflect annual changes in rent levels in accordance with Central Government formula and Council Policy.</p> <p>To examine and evaluate the controls in place within the organisation to mitigate against the risks of reduced income to the HRA from government plans to reduce social housing rents, and any impact of Welfare Reform on rent collection levels.</p>	Significant	0	0	1
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken		
<p>There are effective practices in place with all housing rents, service charges and garage rents being subject to satisfactory modelling, reconciliation and checking for accuracy prior to being added to the live Northgate system.</p>		<p>Based upon the areas tested and sample selected there are no key matters arising from the audit. One low priority recommendation has been made and this is in relation to the Historic Housing Register where the Housing and HRA Accountant currently uses an extract from the housing register dating back to 2009 as the base for her calculations when forecasting the new rents.</p>		<p>Management responded to the low recommendation by stating that there are future opportunities to see if the rent calculations can be made by the new Housing Management system or through the purchase of an add on to the system to be able to calculate the rents going forward. It is also planned to introduce a new fixed asset database, which would hold the valuations of dwelling assets and could potentially replace the current process.</p>		

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations		
				High	Medium	Low
4	ICT Disaster Recovery & Business Continuity Planning	To determine whether controls and procedures in place to maintain access to the Authority's computerised systems, applications and information are adequate and operating effectively. To further determine whether, in the event of a disaster or significant event causing major disruption to the Authority's data processing capabilities, effective disaster recovery and business continuity arrangements are in place that will minimise any disruption to processing of business critical applications.	Limited	0	5	17
Good Practice Highlighted		Main Issues Identified	Progress Made/Action Taken			
Information Services have identified and documented their risks within the corporate risk register and are currently reviewing their risks to ensure that they are up to date and comprehensive.		<p>Information Services have not produced Business Impact Analysis (BIA) and Business Continuity Plan (BCP) documents containing details of critical functions and actions required to reinstate those functions.</p> <p>A programme of resilience testing has not been established to ensure the network remains functional under varying conditions and scenarios.</p> <p>Information Services have a documented Disaster Recovery Plan (DRP) which is incomplete. Key sections of the plan are blank, including Appendix A, 'Technology Disaster Recovery Plan'. This section is critical to the plan and should contain details of how high priority systems will be recovered in the event of an incident. Information such as the contact details of third parties is also incomplete.</p>	<p>Management have self-certificated four of the five medium recommendations and eight of the low recommendations as having been implemented.</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>			

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

- 6.1 Internal Audit reports issued during the period November 2018 to April 2019 included 18 medium priority recommendations. There were no critical or high priority recommendations in the period under review. In respect of these 18 recommendations, 11 have been self-certified by management as fully implemented and 7 have not reached their target dates.
- 6.2 Further work on how best to measure the implementation of agreed recommendations is scheduled and will be reported to Audit Committee in due course.