



Northumberland
County Council

Shared Internal Audit and Risk Management Service

**2019/20 Opinion on the Adequacy and
Effectiveness of the Framework of
Governance, Risk Management
and Control**

July 2020

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Executive Summary

Overall, Internal Audit's work performed during 2019/20 found that the County Council's internal systems of governance, risk management and control are satisfactory overall. This is a positive assessment of the Council's control environment and reflects favourably on Northumberland County Council's governance arrangements.

This 'satisfactory' overall judgement is informed by the outcomes of Internal Audit work during 2019/20. This work demonstrates that the majority of audit opinions issued in the period have been categorised as 'significant assurance' or 'full assurance'. No 'critical priority' recommendations were made by Internal Audit during the year, and no 'no assurance' audit opinions have been issued or are pending.

However the Chief Internal Auditor would draw attention to entities within the County Council's accounting group boundary, specifically the wholly owned Advance Northumberland Group of Companies, which replaced the Arch Group of Companies during 2018/19. Whilst efforts have been made by Advance staff to establish sound systems within the new entity, it must be recognised that further work continues to be necessary to establish and embed effective governance arrangements and controls within fundamental systems within the Advance Northumberland Group of Companies. As such, this should continue to be a specific focus of the County Council's attention when undertaking its own assessment of governance and control.

Subject to this observation regarding the Advance Northumberland group, the opinion of the Chief Internal Auditor (known as the 'chief audit executive' under the Public Sector Internal Audit Standards) is, at the time of preparing this report, that Northumberland County Council's internal control systems are **satisfactory** overall.

1 Purpose of Report

- 1.1 This report has been written by 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, taking into account the expectations of the Council's Leadership Team, Audit Committee and other key stakeholders.

2 Governance, Risk Management and Control

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

Preventative Controls

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

Detective Controls

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

Directive Controls

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

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

- 3.1 The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS), introduced in April 2013 and revised April 2017, to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. For the purpose of meeting this requirement, the Chief Internal Auditor provides one of two opinions:
- (a) That the organisation's framework of governance, risk management and control is **satisfactory** (i.e. satisfactory assurance can be obtained from governance systems and procedures in place); or
 - (b) That the organisation's framework of governance, risk management and control is **not satisfactory** (i.e. there is insufficient control in evidence within the organisation's governance systems to provide satisfactory assurance).
- 3.2 The opinion of the Chief Internal Auditor is that, at the time of preparing this report, the County Council's internal systems of governance, risk management and control were **satisfactory** overall, during 2019/20. This is a positive assessment of the Council's control environment and reflects favourably on the organisation's governance arrangements.
- 3.3 In 2018/19, the opinion of the Chief Internal Auditor was that the new Group of Companies, Advance Northumberland, continued to face risks and challenges regarding its framework of governance, risk management and control. This opinion was informed by a number of 'Limited Assurance' audit opinions given to individual assignments during that year. In respect of 2019/20, the opinion of the Chief Internal Auditor is that further work continues to be needed to embed governance arrangements within the Advance Northumberland Group of Companies. In particular, work undertaken by Internal Audit has highlighted that weaknesses

remain within fundamental financial systems. The opinion level for this entity overall cannot be considered fully satisfactory until an adequate level of control is established and can be demonstrated within these systems. This should continue to be an area of focus for the County Council when reviewing its internal control arrangements.

- 3.4 Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist. This judgement is informed by the well-established framework of core financial systems which are in place within the County Council, and the outcomes of Internal Audit work during 2019/20, which is reported to the Audit Committee in regular Key Outcomes reports. These have demonstrated that the majority of audit opinions issued in the period have been 'significant assurance' or 'full assurance'. A full list of audits performed and opinions issued is included at **Annex A**.
- 3.5 However, Internal Audit is required to be alert to changes in the risk environment and conditions in which any audited entity operates. Internal Audit notes that the Coronavirus pandemic, which has brought about a number of significant changes nationally, occurred at the end of the 2019/20 financial year. The Coronavirus pandemic has been far-reaching in its impact and local authorities have subsequently been a key part of the response to the pandemic. The full impact of the pandemic is still evolving and all local authorities are in the process of evaluating the changes to their risk profile and operations. Northumberland County Council has expressly considered the impact of Coronavirus on its operations and Internal Audit will formally consider the impact of the Coronavirus pandemic as part of our coverage during 2020/21.
- 3.6 The Chief Internal Auditor has not needed to place reliance on the work of other bodies in forming this view, and there are no limitations in the scope of the opinion.
- 3.7 In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation. It is management's responsibility to implement agreed recommendations. As part of 2020/21 planned service improvements, Internal Audit will be reviewing the approach to evidence checking the extent to which agreed recommendations have been implemented. In doing so, Internal Audit must balance the value to be gained from revisiting previous recommendations, management's own responsibility for their implementation and the respective value to be gained by reviewing new areas of emerging risk.
- 3.8 It is recommended that Internal Audit's overall satisfactory opinion on the framework of governance, risk management and control is considered as a source of assurance for the preparation of the Annual Governance Statement for 2019/20, and its subsequent approval by the Audit Committee.

4 Audit Work Performed During 2019/20

- 4.1 Internal Audit has provided an audit, advice and programme assurance service to the Council in 2019/20. The work of Internal Audit is governed by the PSIAS and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance & Accountancy as the 'relevant Internal Audit standard setter'.
- 4.2 The audit reports issued during 2019/20, and those related to this period which are currently being finalised with our audit clients, are set out **Annex A**. During 2019/20 Internal Audit undertook a high volume of work in response to emerging assurance issues, and accordingly it was necessary to switch resource from some scheduled audit and assurance activity. As a result, and in accordance with professional auditing guidelines, the Chief Internal Auditor re-assessed and reviewed the overall Plan to ensure audit resources were directed to areas of maximum benefit.
- 4.3 A framework of opinion classifications is used in Internal Audit reporting. The framework applies an overall assurance judgement to each system audited, as defined below:

Assurance Level	Description
Full Assurance	The system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
Significant Assurance	There is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design of, or occasional non-compliance with, key controls put the achievement of the organisation's objectives at risk in some of the areas reviewed.
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.

- 4.4 The opinions given to audits issued during 2019/20 are also shown in **Annex A**.
- 4.5 In addition to the overall opinion given on every audit assignment, individual recommendations within each report are classified as critical, high, medium or low priority. This prioritisation is designed to assist management in assessing the importance of each recommendation. The definitions of these priority classifications are set out below:

Priority	Classification	Description
1*	Critical / Catastrophic	Action that is considered critical to ensure the organisation is not exposed to unacceptable risks.
1	High / Fundamental	Action that is considered urgent to ensure that the service area / establishment is not exposed to high risks.
2	Medium / Significant	Action that is considered necessary to avoid exposure to considerable risks.
3	Low / Less Significant	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

- 4.6 The number of Internal Audit recommendations agreed with management during the 2019/20 audit year, classified against each priority, is provided in the table below (data from the previous five years is also shown for comparative purposes).

Priority Level	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Critical Priority	Nil	Nil	Nil	Nil	Nil	Nil
High Priority	18 (5%)	7 (2%)	11 (4%)	3 (3%)	Nil	7 (4%)
Medium Priority	130 (39%)	181 (59%)	119 (49%)	47 (53%)	54 (39%)	53 (29%)
Low Priority	187 (56%)	118 (39%)	115 (47%)	39 (44%)	86 (61%)	123 (67%)
TOTAL	335 (100%)	306 (100%)	245 (100%)	89 (100%)	140 (100%)	183 (100%)

- 4.7 A vacancy within the Internal Audit structure has been filled during 2019/20 although resourcing has been affected by some long-term sickness absence. Resourcing continues to be closely monitored and management of resources continues to be undertaken under the County Council's prevailing policies.
- 4.8 Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes. This is in accordance with the requirements of Public Sector Internal Audit Standards, which requires that a Quality Assurance and Improvement Programme is in place for Internal Audit's work.

Audit Highlights 2019/20

- 4.9 This section of the report is designed to draw attention to significant audits and findings from Internal Audit in the 2019/20 year. It should be read in context of the overall positive 'satisfactory' audit opinion described above.

- 4.10 It is of comfort to the Authority that the Council Tax and Business Rates high value / high volume transactional systems achieved assurance of 'significant' or 'full'. These systems comprise the main processes by which the organisation receives income.
- 4.11 Attention is also drawn to the 'significant assurance' opinion reached in respect of Business Continuity and Disaster Recovery arrangements. These aspects of the Authority's operations focus on maintaining access to the Authority's computerised systems, applications and information required for the delivery of services to our residents, customers and often very vulnerable service users. Effective disaster recovery and business continuity arrangements help minimise any disruption to the processing of our business-critical applications and a 'significant assurance' opinion in respect of such a critical aspect of the Authority's operations is to be welcomed.
- 4.12 Regarding other Information Technology arrangements, there are aspects of the systems in place which are of concern. For example, the Authority's Payment Card Industry Data Security Standards (PCIDSS) and Network Management arrangements received a 'Limited Assurance' audit opinion. This highlights key areas of risk which should be a focus of management attention, especially given the importance of these systems for the effective delivery of so many of the Authority's services. However, arrangements around administration of the Google applications platform and Library Management system were found to be more soundly based, resulting in a 'significant assurance' opinion for these audits.
- 4.13 Internal Audits of Debt and Income Management and Cash and Bank received 'Limited Assurance' audit opinions. Issues experienced by the Authority during the upgrade of the debtors system were highlighted at the time of the audit resulting in a number of recommendations being made. System issues have now been resolved with the service area making good progress with the implementation of recommendations. An audit of cash and bank arrangements identified good controls in place within the central corporate systems but highlighted some weaknesses in cash handling procedures within a sample of satellite establishments visited as part of the review.
- 4.14 Internal Audit's work involving the Advance Northumberland Group of Companies (which replaced the Arch Group of Companies, that was wound down during 2018/19) is referenced above at paragraph 3.3. This work is material to the County Council's framework of governance, risk management and control and hence is referenced in this report.
- 4.15 In addition to performing internal audits of existing systems within the Council and responding to queries on the operation of such systems, during 2019/20 Internal Audit continued to have an increasing role in advising on new systems and processes within the Council. A full list of the programme assurance work and project groups supported by Internal Audit is shown at **Annex A**. Whilst the time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit's resource, in that assurance is obtained that effective controls are incorporated into new systems and processes from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. It is expected that this type of audit work will

continue in future years. Internal Audit's programme assurance work during 2019/20 includes supporting:

- a) Digital Northumberland Programme Board;
- b) the Implementation of the Authority's Oracle Cloud Solution;
- c) Implementation of Office 365 and SharePoint collaborative tooling solution;
and
- d) the Transfer of the Authority's Contract for Provision of Electricity.

4.16 As a general comment, recent projects have identified areas that would have benefitted from more in-depth assurance at an earlier juncture.

4.17 There are a number of funding organisations that require an Internal Audit review prior to final grant claim submission. This area of our activity is also shown at **Annex A** and involved the certification of £27.9m grant funding in 2019/20.

5 Schools' Financial Value Standard

5.1 Time was included in the audit plan for 2019/20 to support and co-ordinate the work required by the Schools Financial Value Standard (SFVS) on behalf of the Authority.

5.2 The SFVS has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. Governing bodies have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors; however the Authority's Chief Finance Officer is responsible for ensuring that submissions made by schools are in line with the judgements on these schools which have already been reached by Internal Audit.

5.3 On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinated, received and reviewed SFVS submissions for all of the Council's grant-maintained schools. All schools submitted their self-assessments by the deadline of 31 March 2020. Due to the impact of the Coronavirus pandemic, the Department for Education removed the requirement to submit an SFVS submission for 2019/20.

6 Special Investigations

6.1 During 2019/20, the Service undertook a number of assignments in response to emerging governance issues arising in year. These relate to issues which could not be foreseen, and where irregularity may have been indicated. As such, it is important that the organisation can call upon Internal Audit resource to respond quickly to assess the extent of potential problems.

7 The National Fraud Initiative (NFI)

7.1 Northumberland County Council is part of the Cabinet Office's National Fraud Initiative (NFI) and is required to provide particular sets of data to the Minister for the Cabinet Office for matching for each exercise. Before this information can be provided, the Council is required to ensure that appropriate steps have been taken

to notify data subjects held in the organisation's relevant information systems that data may be used for the prevention and detection of fraud.

- 7.2 As in previous years, Internal Audit have acted as the lead within the Council for the NFI data-matching exercise. Data was extracted from the relevant Council systems and submitted to NFI, additionally fair processing notices were issued to notify all data subjects that data may be used for the prevention and detection of fraud. The NFI 2019/20 results have been released and Internal Audit and appropriate officers within departments are currently investigating the matches and updating the NFI system with outcomes.

8 Ad-hoc Queries / Requests for Advice

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

9 Public Sector Internal Audit Standards: Summary of Conformance

- 9.1 All public sector internal audit providers in the UK are required to comply fully with the Public Sector Internal Audit Standards (PSIAS). The PSIAS require the Chief Internal Auditor to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the Internal Audit service to be assessed against the PSIAS, and a related Local Government Application Note (LGAN), for conformance.
- 9.2 The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the PSIAS, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.
- 9.3 Internal Audit services are delivered to the Authority by the Shared Internal Audit Service (which provides services to North Tyneside Council and Northumberland County Council). The Shared Internal Audit Service was externally assessed for compliance with the PSIAS during 2017 / 2018 and the assessment concluded that:
- “The Shared Internal Audit Service is compliant with the requirements of the Public Sector Internal Audit Standards. There are a small number of areas which require action but these do not significantly impact on the overall opinion. There were no areas of concern to be reported.”*
- 9.4 In accordance with PSIAS, annual self-assessments have been completed since the external inspection which are congruent with the opinion of the external assessment. The small number of areas in which further development had been identified, (e.g. the involvement of the Chair of Audit Committee in the Chief Internal Auditor's performance appraisal) have been implemented.

10 Clients' Views and Quality Assessment and Improvement Programme

- 10.1 For several years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment. As part of Internal Audit's Quality Assessment and Improvement Programme, the client feedback questions were amended for the 2019/20 year across all client entities.
- 10.2 The feedback received from respondents for 2019/20 remains very positive. Clients score the service from 1 to 4 against a number of criteria, with 1 being very satisfied and 4 being very dissatisfied. From all the returned feedback forms, clients' overall opinion was that audits are constructive and provide value to management. The overall average score in 2019/20 was 1.57 (1.0 is the highest that can be achieved).
- 10.3 Internal Audit seeks to continually improve and will be reviewing and implementing new processes through its Quality Assessment and Improvement Programme. The theme of comments added to the feedback is that audits are conducted in a professional manner and findings and recommendations will lead to system improvements. However, Internal Audit seeks to continually improve and will be reviewing and implementing new processes during 2020/21 to refine the reporting format and review process.
- 10.4 The full results for 2019/20 are shown at **Annex B**.

11 Annual Governance Statement 2019/20

- 11.1 The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement. Internal Audit has continued to target its assurance activity at areas of risk in its 2019/20 coverage in line with the agreed audit plan. Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop awareness of the application of the Council's governance structure.
- 11.2 It is suggested that the following issues are considered for inclusion in the Annual Governance Statement:

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

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

In determining the overall 'satisfactory' opinion, the Chief Internal Auditor has had regard to the established framework of core financial systems in place within the Authority, which when audited during 2019/20 were found to bear appropriate internal controls and to be operating satisfactorily.

Attention is drawn to those audits undertaken regarding the County Council's Information Technology arrangements, which received a 'limited assurance' audit opinion during 2019/20. As the public services, including Northumberland County Council, continue to embrace channel shift which is likely to see an increasing reliance on computerised systems and 'self-service' by stakeholders, it is essential that all ICT systems are fit for purpose. This will be a continued area of focus within the Authority.

The audit of Business Continuity and Disaster Recovery arrangements demonstrated effective systems in place to maintain access to the Authority's computerised systems, applications and information and to minimise any disruption to the processing of our business-critical applications.

During 2018/19, the County Council's former wholly owned group of companies (Arch Corporate Holdings Ltd.) began to be wound down and a new company (Advance Northumberland Ltd.) was created. As a company wholly owned by the County Council, any such entity will have an impact (favourable or adverse) on the overall framework of governance, risk management and control within the County Council. It will be necessary for governance arrangements in the Advance Group to fully embed in order for those responsible for governance to have sufficient confidence in the control environment in operation and this will continue to be an area of Internal Audit's focus as systems become embedded.

Annex A: Formal Audit Reports issued during 2019/20

Audit	Opinion
Business Continuity / Disaster Recovery	Significant
Business Rates	Significant
Cash and Bank	Limited
Council Tax (2018/19)	Full
Council Tax	Full
Debt and Income Management	Limited
Google	Significant
Library Management System	Significant
Network Management	Limited
PCI DSS	Limited
Public Services Network (PSN) Code of Connection Briefing Note	N/A
Youth Services	Limited

Reports Pending from 2019/20 (draft report issued, awaiting issue as final report)

Audit
Creditor Payments
Payroll
Perimeter Security
Rent Assessment & Collection
Risk Management
S106 / S278 Arrangements
Streetlighting
Virtual Desktop Infrastructure

Grant Claim certification

Carbon Reduction Commitment
Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant
Local Transport Plan Grant
Sele First School
Troubled Families Grant

Programme Assurance / Projects Groups

Digital Northumberland Programme Board
Electricity Contract Transfer
Implementation of Oracle Cloud Solution
Office365 and SharePoint
Troubled Families Partnership

Annex B: Overall Results from Client Feedback Forms 2019/20

Satisfaction score between 1 and 4 with 1 being very satisfied and 4 being very dissatisfied:

AUDIT PLANNING & CONSULTATION	Average Score
• With the period of notice for commencement of the audit	1.29
• With the explanation provided of the audit process	1.14
• With the areas of coverage from the audit	1.57
• That your requirements were reflected by the audit	1.57
AUDIT APPROACH	
• Attitude and professionalism of the auditor	1.43
• Auditor's knowledge and understanding of auditee's operational requirements	1.43
• Communication skills of the auditor	1.43
• Being kept informed of audit progress, including consultation on findings and likely recommendations	1.71
REPORTING ARRANGEMENTS	
• With the arrangements for consultation on the draft report	1.57
• With the accuracy and materiality of the report findings	1.29
• With the usefulness and practicality of the conclusion and recommendations in the report	1.71
• With the clarity of the report	1.71
• With the format and presentation of the report	1.71
• The time taken to receive the report following the audit visit	2
OVERALL OPINION	
• That the audit was constructive and useful	1.57