



Northumberland
County Council

Shared Internal Audit and Risk Management Service

Key Outcomes from Internal Audit Assignments (1 November 2019 – 1 July 2020)

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 require 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 also to report on emerging issues in year.
- 1.3 This report was originally scheduled for presentation to the March 2020 Audit Committee, but the timing of the Coronavirus pandemic and resulting impact on the ability to hold Committee meetings at that time has meant that this report is instead being presented in July 2020.

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 1 November 2019 – 1 July 2020. 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 later in the year in accordance with Internal Audit’s agreed processes.
- 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 ongoing 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. Due to the impact of Covid19 the audit opinion is being presented to Committee in July 2020. Committee will note that the findings from audits covered in this report are one of the intelligence strands which have informed the Chief Internal Auditor’s opinion on the framework of governance, risk management and control.
- 2.3 In this report, details of six audit assignments are presented. For one of the audits an opinion was not applicable. Of the remaining five assignments, one received a ‘full assurance’ opinion, two received a ‘significant assurance’ opinion and two received a ‘limited assurance’ opinion. No ‘critical’ recommendations were made. Due to the timing of the Coronavirus pandemic, a number of additional audit reports were delayed in being issued and 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.

3 Opinion Framework

3.1 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.

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

3.3 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.

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

3.5 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:

- Digital Northumberland Programme Board
- Implementation of Oracle Cloud Solution;
- Office 365 / SharePoint;
- Transfer of the Authority's Contract for Provision of Electricity.

3.6 In addition, between March and July 2020 Internal Audit has been heavily deployed in assurance work necessitated by the Coronavirus pandemic. This has involved project assurance and development of systems related to a number of business grant funding streams, and advising teams involved in work brought about by the pandemic on suitable controls in a rapidly changing environment. Internal Audit has also provided assurance around IT issues, in particular a specific remote working solution, and has led on the post payment assurance and counter fraud elements of the pandemic response.

3.7 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/KM/CH
July 2020

5 Main Outcomes – Audit Reports Issued during period 1 November 2019 – 1 July 2020

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Library Management System (LMS)	To determine whether the systems and procedures in operation for the Library Management System (LMS) are functioning satisfactorily and are in accordance with legislation and Council policy.	Significant	0	0	4	10
Good Practice Highlighted		Main Issues Identified and Priority of Recommendation		Progress Made/Action Taken			
<ul style="list-style-type: none"> • There are multiple audit trails within the system, • The audit logs are easily interrogated. • There is a clear segregation of privileges within the LMS • There is a clear process for creating accounts including volunteers signing a code of conduct. • The system has built in validation which is being used effectively to minimise inputting errors. • The library team have implemented comprehensive and easy to follow documentation to aid less experienced employees. • The library team have implemented a 'train the trainer' system so training can be delivered in-house. The reporting functionality within the system is easy to use and produces reports which can be easily interrogated. • The library employees provide reports to senior leaders annually. The system allows for in depth financial reporting. 		<p>The main issues identified were:</p> <ul style="list-style-type: none"> • Inaccuracies with the LMS reports have impacted on the cash reconciliation process and manual reconciliations result in a more resource intensive process (Medium). • All thirteen library kiosks have reached end of life and are no longer supported, subsequently becoming non-compliant with Payment Card Industry -Data Security Service regulations. In addition, six kiosks are unable to take card payments as a result of coins being forced into the card slots (Medium). • A visit to one Library identified that security controls in place could be improved to help safeguard books and ICT equipment (Medium). • The password controls applied to the Library Management System are weaker than the corporate controls (Medium). 		<p>The service area has confirmed that password rules have been changed to meet the corporate standard, and this has been verified by Internal Audit as fully 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>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations																		
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2	Public Service Network (PSN) Code of Connection Submission	To independently review the submission of the 2019 PSN Code of Connection (CoCo) submitted to the PSN Cabinet Board in December 2019.	N/A	0	6	28	0															
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken																		
Information Services have developed an in-house system that detects when software patches are available for its software applications.		<ul style="list-style-type: none"> Following the 2018 submission, Internal Audit highlighted the need for Information Services (IS) management to strengthen controls to monitor the progress of vulnerabilities assigned across the various teams to ensure they were resolved in a timely manner. Discussion during this review identified further work is still required to strengthen these controls. Due to issues experienced during the migration to Microsoft 365, several of IS's PSN related documents, including a spreadsheet used to track progress against issues was lost and although it was repopulated, the document does not reconcile with the 2019 submission and requires attention to ensure its accuracy and completeness. To facilitate an IT Health Check (ITHC) of the internal network IS provided the external tester with global super-user access rights which no standard user has. Provision of these rights allowed the tester to circumvent all the security controls in place and provided unrestricted access to all domains. As such, although the ITHC identified multiple vulnerabilities, these would not normally be exploitable as devices are protected by firewalls and Sophos Endpoint security 		<table border="1"> <thead> <tr> <th>Year</th> <th>High Priority total</th> <th>High Priority Incomplete (%)</th> <th>Medium Priority Total</th> <th>Medium Priority Incomplete (%)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>63</td> <td>22 (35%)</td> <td>36</td> <td>33 (92%)</td> </tr> <tr> <td>2019</td> <td>30</td> <td>6 (20%)</td> <td>56</td> <td>28 (50%)</td> </tr> </tbody> </table> <p>Internal Audit has liaised with IS colleagues to establish that three of the six high priority vulnerabilities identified in the submission have now been completed, a further two are partially completed and the final vulnerability in respect of the replacement of the telephony infrastructure is planned for implementation in 2020/21.</p> <p>Low priority vulnerabilities identified in the 2019 ITHC reduced by almost 50% from 29 to 15.</p>				Year	High Priority total	High Priority Incomplete (%)	Medium Priority Total	Medium Priority Incomplete (%)	2018	63	22 (35%)	36	33 (92%)	2019	30	6 (20%)	56	28 (50%)
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3	ICT Disaster Recovery & Business Continuity Planning (Follow Up)	Further to assurance work previously undertaken, to review action taken by the Authority to implement and manage disaster recovery and business continuity plans. 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.	Significant	0	0	2	7
Good Practice Highlighted		Main Issues Identified and Priority of Recommendation		Progress Made/Action Taken			
<ul style="list-style-type: none"> Information Services has created and circulated a large amount of documentation, this includes a Business Impact Assessment (BIA), Business Continuity Plan (BCP), Critical recovery schedule and a Disaster Recovery contact and responsibility document. There are now appropriate controls in place for the monitoring of incidents and a formal review process is in place to learn from each incident. 		<ul style="list-style-type: none"> Information Services have produced a formal BCP that is used to maintain and/or reinstate critical ICT services in the event of an incident such as the loss of County Hall. However, Internal Audit was unable to evidence that technical documentation for the restoring of infrastructure was in place within the individual IS teams (Medium). A programme of resilience testing has not been established to ensure the network remains functional under varying conditions and scenarios (Medium). 		<p>Three of the five previously agreed medium priority recommendations have been implemented, together with ten of the seventeen low recommendations reported in the original audit. Revised target dates for outstanding recommendations have been agreed.</p> <p>The procedures now in place have enabled IS to respond to the Authority's needs during the current Covid-19 pandemic, with business continuity being tested across the organisation. The Authority implemented a new VPN solution (Prisma) to react to the performance of Direct Access due to the sharp increase in demand for remote access.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
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4	Northumberland Youth Service – Financial Procedures Review	To document, review and assess the robustness of internal controls for the authorisation, payment and reconciliation of all relevant financial transactions processed by the Northumberland Youth Service (NYS). The Youth Service was reintegrated into Northumberland Adolescent Service (NAS) group in December 2017 and comparisons to procedures and controls currently in place within NAS were carried out where applicable.	Limited	0	0	7	9
Good Practice Highlighted		Main Issues Identified and Priority of Recommendation		Progress Made/Action Taken			
None specifically identified		<ul style="list-style-type: none"> • Only one signature on cheques and no signatory list held within the service (Medium). • No formal authorisation of expenditure and purchases (Medium). • No separation of duties - Lead Finance Officer signs cheques, manages petty cash, uses a service debit card and performs all current financial reconciliations (Medium). • No formal authorisation of petty cash transactions (Medium). • Missing petty cash receipts dating back to March 2018 (Medium). • Cheque book kept with an officer rather than securely stored in the safe (Medium). 		Management have self-certified that five of the medium priority recommendations have been implemented. Internal Audit plan to undertake a follow up visit later in 2020/21.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
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5	Cash and Non Credit Income	<p>To provide assurance to the Authority regarding the following key areas:</p> <ul style="list-style-type: none"> • Procedural Guidance; • System Access; • Receipt of Income; • Reconciliation of Income; and • Banking of Income 	Limited	0	0	5	9
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<ul style="list-style-type: none"> • Cashiers maintain in depth, accurate and relevant financial procedures for cash handling and receipt of cash. These include “how to” documents for less experienced employees. • Procedures are reviewed annually or after every large system/ procedural change. These are then circulated amongst the teams that handle and receipt cash and are updated in Google Drive. 		<ul style="list-style-type: none"> • A number of establishments have shredded financial documents prior to their retention periods being met (Medium). • Two of the establishments visited empty and bank monies collected by the car parking meters. The money is placed in the bags provided by Security Plus, this is then left unsealed in the safe and used for change. As a result, the establishment is not banking intact (Medium). • Several reconciliation errors were identified at a number of establishments visited. These ranged in value from pennies to twenty pounds (Medium). • It was identified that three of the establishments visited completed a transfer of cash deposits between locations. None of these transfers are documented and no receipts are issued (Medium). • During one unannounced visit an employee removed the cash drawer from the till and placed this along with all the takings in an unlocked office with an open window and with no other staff member present (Medium). 		<p>The target dates for implementation of the 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			
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6	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. The audit reviewed transactions for the 2019/20 and 2020/21 financial year.	Full	0	0	0	0
Good Practice Highlighted		Main Issues Identified		Progress Made/Action Taken			
<p>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, refunds and debt recovery. The Information at Work system held all relevant data for the accounts examined, and was well maintained.</p> <p>Specific attention was also paid to those accounts which had received a hardship payment as part of the Covid-19 pandemic. For the sample reviewed by Internal Audit it could be seen that a number of £150 hardship payments had been made and it was found that these had all been processed correctly.</p>		There were no main issues identified.		<p><i>Not applicable – this audit received a Significant Assurance opinion and no recommendations were made.</i></p>			

6 Evidence Checking

- 6.1 Internal Audit would normally undertake evidence checking in respect of all high and a sample of medium priority recommendations, however due to the timing of the Coronavirus pandemic and the consequent restrictions this brought about, this has not yet been possible to perform. Internal Audit will develop a response to evidence checking as part of our ongoing evaluation of post pandemic assurance and will update Audit Committee as part of a future report in due course.