



**Northumberland**  
County Council

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

### **Key Outcomes from Internal Audit Assignments (2 July 2020 – 6 November 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 to report on emerging issues in year.

## 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 2 July 2020 – 6 November 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.
- 2.3 In this report, details of seven audit assignments are presented. For one of the audits an opinion was not applicable. Of the remaining six assignments, four received a ‘significant assurance’ opinion and two received a ‘limited assurance’ opinion. No ‘critical’ recommendations were made. These reports are detailed in **Section 5** below.
- 2.4 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.
- 2.5 Between March and November 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 led on the post payment assurance and counter fraud elements of the pandemic response as well as having completed the certification of a number of central government grant returns.

- 2.6 A summary of the programme assurance and grant certification work undertaken by Internal Audit in the period is included at **Section 6** of this report.

### 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.

IA/KM/CH  
November 2020

## 5 Main Outcomes – Audit Reports Issued during period 2 July 2020 – 6 November 2020

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Perimeter Security	To determine whether the Authority's systems of control managed by Information Services (IS) are effective and protect the Authority's computer infrastructure, applications and data from internal and external threats e.g. protection against the risks associated with virus and hacking attacks.	<b>Significant</b>	0	0	1	5
<b>Good Practice Highlighted</b>		<b>Main Issues Identified and Priority of Recommendations</b>		<b>Progress Made/Action Taken</b>			
<ul style="list-style-type: none"> <li>Strong physical and logical access controls are in place.</li> <li>All changes to the firewall rule base are subject to a formal change control process.</li> <li>Intrusion Protection Systems are in place to actively monitor and block malicious network traffic.</li> <li>All incoming/outgoing email is subject to thorough scans to minimise the risk of virus attack and spam.</li> <li>Antivirus software is installed on all appropriate devices.</li> <li>Only approved USB devices can be accessed by a corporate device.</li> <li>Access to Internet pages containing malicious links or content are automatically blocked.</li> </ul>		<p>The main issue identified relates to measures taken to implement Prisma, the replacement remote access solution. Due to the unprecedented high volume of employees required to work from home during the Covid-19 pandemic, Direct Access was unable to satisfy this demand. IS responded immediately to identify and implement a solution to alleviate the issues under difficult conditions. A timebound plan was not in place to resolve issues identified by IS due to implementing the solution so quickly <b>(medium)</b>.</p>		<p>The Final Report was issued in October 2020.</p> <p>The target date 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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				Critical	High	Medium	Low
2	Virtual Desktop Infrastructure (VDI)	To determine whether the Authority's implementation of VDI services has been managed effectively, objectives of VDI implementation have been achieved and that the VDI platform is secure.	Significant	0	0	1	3
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
As a result of a procurement exercise a third-party contractor was appointed to implement VDI using the Citrix platform. The contractor is a Citrix Platinum Solution Advisor partner accredited by Citrix Systems Inc. this gives reassurance that they are fully capable of advising and assisting with implementing Citrix VDI software. Citrix Systems Inc. performs checks to ensure Platinum Solution Advisors have the correct skills to provide a required level of service.		The main issue identified relates to Elastic (ELK) Stack software currently being used as a temporary solution to provide event security monitoring across a number of the Authority's systems. ELK Stack is limited in its capabilities and does not have the ability to utilise correlation rules to analyse and identify possible breaches of security indicative from events logged on the system. In addition, the system does not provide an incident management system to manage events logged <b>(medium)</b> .		The Final Report was issued in November 2020.  Information Services have advised that a National Cyber Security Centre system has been implemented which addresses some of the issues raised.  The agreed target date for fully actioning this medium priority recommendation has not yet been reached and will be followed up in accordance with Internal Audit's agreed processes.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	BACS System - Follow Up	To revisit the key matters arising identified during Internal Audit's 2018/19 Bacs System Review to establish whether agreed recommendations have been implemented and are effective in providing a greater level of assurance in the relevant areas.	Limited	0	0	3	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
All new developments / enhancements of the Bacs system are subject to consultation with key contacts across all service areas that process Bacs transmissions before being incorporated and prioritised within the Information Services task list.		The three medium outstanding recommendations are all related to the implementation of the PT-X security pack, which has been delayed due to technical issues. Management raised the issue with Information Services (IS), and the security pack has now been partially implemented and is live for some services. It is anticipated that the remaining services will have the pack applied in November 2020. However, until it is fully implemented the identified medium priority risks, including the system permitting a single person payment process, will still exist.		The Final Report was issued in October 2020.  Two of the five original medium priority recommendations in the 2018/19 audit have been implemented. The implemented recommendations relate to contingency arrangements for Bacs payments. The new contingency arrangements, such as the availability of Faster Payments, have satisfactorily strengthened this area.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Accounts Payable and Procure to Pay	<p>To evaluate controls in the Accounts Payable and Procure to Pay systems, using a systems-based approach. Key controls were identified, documented, evaluated and tested in relation to the system's objectives in order to provide assurance to management in the following areas:</p> <ul style="list-style-type: none"> <li>• Raising, approving and receipting of orders;</li> <li>• Creditor payments through the Accounts Payable process; and</li> <li>• Purchase Card expenditure.</li> </ul> <p>A review of previous audit recommendations was also undertaken.</p>	<b>Significant</b>	0	0	4	6
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<ul style="list-style-type: none"> <li>• Access to the I-Procurement (IP) system is controlled. Orders and requisitions can only be raised against the General Ledger (GL) codes assigned to the user.</li> <li>• Supporting documentation (for example PDFs, copies of POs and invoices) are attached to the records within IP.</li> <li>• Payment is only released following goods receipting in the IP system by the service.</li> <li>• Where the coding is incorrect on bulk load payments the spreadsheet is rejected and an automatic email sent to the Accounts Payable team so they can correct the error.</li> </ul>		<p>The main issues identified related to:</p> <ul style="list-style-type: none"> <li>• Significant numbers of Purchase Orders (PO) being raised retrospectively <b>(medium)</b>.</li> <li>• A number of service areas not meeting the invoice payment target dates set out by the Authority <b>(medium)</b>.</li> <li>• A robust process for the approval of Purchase Card expenditure not being in place. Controls required strengthening in relation to the review and certification of monthly transaction logs and ensuring that receipts are attached to the transaction log for all transactions, when received by Accounts Payable <b>(medium)</b>.</li> <li>• Improving procedures regarding the auto approval of agency timesheets <b>(medium)</b>.</li> </ul>		<p>The Final Report was issued in October 2020.</p> <p>Accounts Payable provide a detailed analysis of late invoice payments to the Senior Management Team and Chief Executive. They also target departments with consistently late payments and alert service directors to those teams with consistently late payments.</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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				Critical	High	Medium	Low
5	Section 106 Agreements	To review and appraise the adequacy and effectiveness of controls in relation to s106 agreements. The audit also assessed compliance with legislation and Council policy and procedures.	Limited	0	1	7	10
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
A dedicated officer is in place to administer and monitor s106 obligations, income and expenditure and is supported by Exacom an obligation tracking tool.		<p>Main issues identified were:</p> <ul style="list-style-type: none"> <li>The s106 Officer role represents a single point of failure. If the s106 Officer is absent, cover may not be effectively provided by other officers <b>(high)</b>.</li> <li>Instructions from Planning Officers to Legal Services did not contain full details of trigger points <b>(medium)</b>.</li> <li>The s106 Officer was only informed of triggers when the agreement is in place and therefore cannot provide input into the forming of triggers <b>(medium)</b>.</li> <li>The calculation for offsite affordable housing was not sufficient to enable the building of the housing equivalent to that which would be required on site <b>(medium)</b>.</li> <li>Due to limitations of the Planning computer system, Uniform, delegated decisions were recorded by retaining a Google version of the Planning Officer's Report. However, if an officer leaves, their Google account is removed and amendments to documents are then attributed to "Deleted User" <b>(medium)</b>.</li> <li>Exacom was not being used to monitor the collection of contributions, or expenditure from contributions received. This was being carried out using various historical spreadsheets <b>(medium)</b>.</li> <li>Historical spreadsheets have also continued to be used for the monitoring for s106 triggers <b>(medium)</b>.</li> <li>Regular reports of s106 performance were not produced and presented to senior management and elected members <b>(medium)</b>.</li> </ul>		<p>The Final Report was issued in October 2020.</p> <p>Two medium priority recommendations self-certified as implemented by management have been subject to evidence checking. Instructions to Legal Services now contain full details of obligations and trigger points and there is a section on the instruction proforma which requires the s106 Officer to sign agreement that the instruction has been reviewed.</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

6	Rent Assessment	To determine whether Housing Rent, Garage Rent, and Service Charges are accurately updated to reflect annual changes in rent levels in accordance with the revised Central Government formula and Council Policy.	<b>Significant</b>	0	0	0	2
<b>Good Practice Highlighted</b>		<b>Main Issues Identified and Priority of Recommendation</b>		<b>Progress Made/Action Taken</b>			
All risks were identified and well recorded.		No key issues were identified during the review.		The Final Report was issued in August 2020.  The low priority recommendations made will be followed up in line with Internal Audit's agreed processes.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	West Woodburn School Closure Briefing Note	To undertake a financial closure audit of the school. Specifically, to provide closure support and guidance and to ensure propriety within the following areas: <ul style="list-style-type: none"> <li>• School Budget;</li> <li>• Local Account;</li> <li>• Income;</li> <li>• School Voluntary Fund;</li> <li>• Controlled Stationery; and</li> <li>• Inventory of assets.</li> </ul>	N/A	0	0	0	0
<b>Good Practice Highlighted</b>		<b>Main Issues Identified and Priority of Recommendations</b>		<b>Progress Made/Action Taken</b>			
Not applicable.		There were no issues of concern identified.		Not applicable as there were no recommendations made.			

## 5 Evidence Checking

- 5.1 Internal Audit reports issued during the period 2 July 2020 to 6 November 2020 included one high and sixteen medium priority recommendations. There were no critical priority recommendations in the period under review. In respect of the sixteen medium priority recommendations, three having passed their target date, were evidence checked and can be confirmed as implemented. The remaining thirteen and one high priority recommendation have not yet reached their target dates.
- 5.2 As advised in the Key Outcomes Report presented to the July Audit Committee Internal Audit's usual practice of evidence checking of high and medium priority recommendations which had passed their implementation date, could not be performed due to the pandemic. This exercise has now been completed and details are provided in the table below. There were no critical or high priority recommendations made during the previous period. Of the eighteen medium recommendations reported, eight have now passed their target dates, were evidence checked and can be confirmed as implemented. Five of the remaining recommendations have not reached their target dates. It was not possible to evidence check five of the outstanding recommendations in relation to the Youth Service as this would necessitate a site visit. These recommendations will be followed up in due course.

Audit	Issue Identified	Details of Evidence Check
Library Management System (LMS)	Password controls applied to the LMS were weaker than the corporate standard.	Password rules have now been changed to meet the corporate standard.
Cash and non-Credit Income	A number of establishments had shredded financial documents prior to their retention periods being met.	Income Management have created a set of procedures for each establishment that receives cash payments. These documents include the recommendations made in the report and are different for each establishment. Embeddedness of these will be reviewed during the next audit.
	Establishments were not all banking intact, and monies taken from car parking meters were used for change.	
	Several reconciliation errors were identified at a number of establishments visited.	
	A number of cash transfers were not documented, and receipts were not issued.	
	During one unannounced visit, cash takings were placed in an unlocked office with an open window with no other staff member present.	

Audit	Issue Identified	Details of Evidence Check
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Youth Service Financial Procedures Review	There was only one signature required on cheques.	Financial procedures manual has been updated and two signatories are now required.
	There was no log of petty cash float deliveries from G4S.	Management advised the G4S delivery service has been cancelled.

5.3 A summary of results from both evidence checking exercises is included within the table below:

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action (or awaiting evidence)	
		No.	%	No.	%
Critical	Not Applicable	N/A	N/A	N/A	N/A
High	Not Applicable	N/A	N/A	N/A	N/A
Medium	11	11	100%	N/A	N/A
Total	11	11	100%	N/A	N/A

## 6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
<b>Covid-19 Business Grants Scheme:</b>	<ul style="list-style-type: none"> <li>○ Support to Finance colleagues in preparing monthly assurance submissions to Department for Business, Energy &amp; Industrial Strategy in relation to the Small Business Grant Scheme and Retail, Hospitality and Leisure Grant Scheme. Monthly returns continue to be made and the Discretionary Business Grant Scheme will be introduced to the submissions in future months.</li> <li>○ Continuing to work with Finance colleagues to progress post payment assurance work identified from completion of the Government’s mandatory business grant scheme risk registers.</li> <li>○ Initial discussions with Finance colleagues regarding potential further grants if businesses are forced to close due to Covid-19 restrictions.</li> <li>○ Assurance provided to £94.4m of Business Grants paid to 8,426 businesses.</li> </ul>
<b>Covid-19 - Public Health Payments to medical practices in lieu of delivering Health Check service</b>	Payments to medical practices in lieu of delivering Health Check service. Public Health agreed to pay 50% of the average monthly payment to medical practices in 2019/20, for April 2020 to July 2020. Internal Audit undertook a post-payment assurance review and concluded that the payments, totalling £0.036m, were calculated correctly and made on a rational basis.
<b>Covid-19 - Review of Adult Social Care Provider Grant Payments</b>	Review undertaken following a request for an audit overview of the procedures implemented in relation to the evaluation and payment of funds to Adult Social Care providers as part of the Authority’s Coronavirus pandemic response. Internal Audit was satisfied that basic levels of control and authorisation were in place throughout the process and suitable records maintained, with some improvements suggested by Internal Audit relating to retention of appropriate documentation and completion of a comprehensive record for all payments and subsequent reconciliation.
<b>Covid-19 Self-Isolation Payments</b>	Providing advice and guidance to Finance colleagues regarding the development and implementation of new processes and procedures.
<b>Local Transport Capital Funding 2019/20 Statement of Grant Usage</b>	Completed and submitted to Department for Transport by deadline of 30 September 2020 – £16.9m Local Transport Plan (Highways Maintenance Block Funding), £0.9m Pothole Action Fund and Flood Resilience Fund, and £1.6m Integrated Transport Block Funding (Northumberland’s share of funds allocated to the North East Combined Authority).
Area of Work	Summary of Work Undertaken

<b>Bus Service Operators Grant 2019/20 Statement of Grant Usage</b>	Statement of Grant Usage - completed and submitted to Department for Transport by deadline of 30 September 2020 – £0.5m.
<b>Blue Badge New Criteria Implementation Grant Certification</b>	Completed and submitted to Department for Transport by deadline of 28 July 2020.
<b>The Sele Primary School - Teaching Schools and School Improvement Annual Grant Certification</b>	Grant value £0.034m – certification complete and returned to the school in line with DfE timescales.
<b>Troubled Families Grant Certification</b>	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. September 2020 Claim certification work complete, 89 families, value £0.0712m.
<b>Participation in the Cabinet Office's National Fraud Initiative</b>	<p>Northumberland County Council participates in the National Fraud Initiative data matching exercise to assist in the prevention and detection of fraud and are required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise. In addition, the Cabinet Office have recently conducted their biennial National Fraud Initiative (NFI) data-matching exercise. Internal Audit liaised with relevant services to ensure the required data sets were extracted in adherence with NFI data specifications and successfully uploaded all required data to the secure NFI system within the required timescales. Results from this exercise will be available in January 2021 for investigation.</p> <p>Internal Audit commenced the annual Council Tax Single Person Discount exercise in October 2020, relevant officers have been contacted and requested to provide the required data sets for upload in December 2020. An additional data set, as part of the counter fraud response to the government Covid-19 relief programme, has been introduced. Internal Audit are currently liaising with the applicable officers regarding extracting data for the required 'Grant Recipients' data, which will be uploaded for data matching in December 2020.</p>
<b>Support to Project Boards / Working Groups</b>	<p>Internal Audit has supported the following project boards / working groups during the period under review in a programme assurance role:</p> <ul style="list-style-type: none"> <li>• Implementation of Oracle Cloud Solution; and</li> <li>• Office 365 / SharePoint.</li> </ul>