



**Northumberland**  
County Council

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

**Key Outcomes from Internal Audit  
Assignments  
(November 2021 – May 2022)**

# 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.

## 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 2021 – May 2022. 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 report. For 2021-22 the annual audit opinion will be presented to Audit Committee at this May meeting. Audit 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 eight audit assignments are presented. For one of the audits a ‘full assurance’ opinion was received. Of the remaining seven assignments, three received a ‘significant assurance’ opinion and four received a ‘limited assurance’ opinion. No ‘critical’ priority recommendations were made.
- 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 Since the onset of the Covid-19 pandemic Internal Audit has been heavily deployed in supporting the Council's response, including providing assurance as the Council developed new systems and processes related to work brought about by the pandemic, for example the numerous business grant funding streams. In recent months the Internal Audit's role has been focussed on pre and post payment assurance work and returns in relation to business grant schemes as well as certification 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 4**.

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  
May 2022

## 4 Main Outcomes – Audit Reports Issued during period November 2021 – May 2022

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Contract Management Arrangements	<p>To review and appraise the adequacy and effectiveness of controls in relation to Contract Management arrangements, the scope of this review specifically included:</p> <ul style="list-style-type: none"> <li>• The Contract Management Policy, Framework and supporting documents,</li> <li>• Recording of contract information,</li> <li>• Contract manager training,</li> <li>• Contract documentation and performance information,</li> <li>• Contract Management meetings.</li> </ul>	Limited	0	0	6	7
Good Practice Highlighted		Main Issues Identified and Priority of Recommendation		Progress Made/Action Taken			
<ul style="list-style-type: none"> <li>• The Contract Management Policy and Framework are documented and available through the intranet.</li> <li>• Contract Management e-learning is available to employees through the Learning Together portal.</li> <li>• Contract Managers receive performance information appropriate to the management of the contract.</li> </ul>		<ul style="list-style-type: none"> <li>• A review of the Contracts Register and spend analysis confirmed that the Contracts Register is incomplete <b>(medium x 2)</b>.</li> <li>• Only 25% of named Contract Managers are recorded as having completed the Contract Management e-learning <b>(medium x 2)</b>.</li> <li>• Formal records of contract management meetings are not always maintained <b>(medium)</b>.</li> <li>• The change control process requires strengthening <b>(medium)</b>.</li> </ul>		<p>The Final Report was issued in January 2022.</p> <p>Management have advised that a list of purchase orders over £5k will be published on a quarterly basis, and contracts identified during the recent spend analysis will be added to the Contracts Register. Contract Management training will become a required learning for Contract Managers.</p> <p>A follow up review is incorporated within the Audit Plan 2022/23 and as part of the review, recommendations will be followed up to ensure they are implemented and embedded.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Business Rates	To determine whether the systems and procedures for the administration of the Business Rates system are adequate and operating effectively.	<b>Significant</b>	0	0	2	4
Good Practice Highlighted		Main Issues Identified and Priority of Recommendation		Progress Made/Action Taken			
<p>Audit testing determined that there were robust practices for monitoring and reporting of Business Rates. This included forecasting of Business Rates using growth and appeals data which is used to help shape the medium-term financial plan for the Authority. Other high-level reporting, including Debt Recovery, Write-Offs and regular reviews of collection rate performance was also evidenced.</p>		<ul style="list-style-type: none"> <li>• There have been significant delays in processing the Valuation Office listing amendments during 2020 and 2021. At the time of testing, this remained approximately 4 weeks delayed (<b>medium</b>).</li> <li>• Quality assurance of the reliefs and discounts awarded is not being routinely completed (<b>medium</b>).</li> </ul>		<p>The Final Report was issued in February 2022.</p> <p>A service review of operational arrangements is underway, and both medium priority recommendations will be addressed as part of that review.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	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 Authority policy.	Limited	0	1	1	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendation		Progress Made/Action Taken			
<p>All new developments/enhancements on 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 (IS) 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 IS and the software provider.</p>		<ul style="list-style-type: none"> <li>One of the two BACS system administrators had the ability to both disable the two stage/person payment process and submit and approve payments for processing (<b>high</b>).</li> <li>The network drive used to transmit files to the BACS system is backed up by a secondary drive, however, testing has not been completed to ensure transactions can be successfully transmitted from the secondary drive to the BACS system (<b>medium</b>).</li> </ul>		<p>The Final Report was issued in April 2022.</p> <p>Management have advised that the role of system administrator is to be handed over to the System Administration team which will ensure a separation of duties within the process. Training has now been provided in advance of the full hand over.</p> <p>Procedures for utilising the secondary drive are to be documented and testing of the drive will be undertaken.</p> <p>A follow up review is incorporated within the Audit Plan 2022/23 and as part of the review, recommendations will be followed up to ensure they are fully implemented and embedded.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Council Tax	To determine whether the systems and procedures in operation for Council Tax collection are functioning satisfactorily and are in accordance with legislation and Council Policy.	Full	0	0	0	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>Audit testing identified that for the accounts examined, the Northgate system was updated accurately 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>Overall, the audit has confirmed that the systems in place for the administration of Council Tax continues to operate effectively as confirmed by the full assurance audit opinion level provided.</p> <p>There were no matters arising from this review.</p> <p>It was noted during the audit that, due to the impact of Covid-19 restrictions, action to recover overdue council tax amounts was suppressed in the 2020/21 financial year and this continued into the early part of the 2021/22 financial year. During this time recovery action was not taken past the initial reminder letter. Following a decision by management, full recovery action recommenced in May 2021. Our review of a sample of accounts at the recovery stage found that the appropriate action had been taken in accordance with the procedure.</p>		<p>The Final Report was issued in May 2022.</p> <p>Not applicable as there were no recommendations made.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	School Local Account – High School	To provide assurance to the Authority and Headteachers that controls in place in relation to the administration of the School's Local Account are robust, and Financial Procedures are complied with.	<b>Significant</b>	0	0	3	2
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
Local Account monthly returns are subject to third party examination by the Co-Headteachers, who review and authorise the local account and its transactions.		<ul style="list-style-type: none"> <li>The school's 'School Financial Procedures Manual' was in need of updating <b>(medium)</b>.</li> <li>Income was banked into the Local Account which is an expenditure account <b>(medium)</b>.</li> <li>Where three quotes were not obtained for supplies greater than £10k there was no evidence the governing body had approved this exemption from procedures <b>(medium)</b>.</li> </ul>		<p>The Final Report was issued in May 2022.</p> <p>An updated revised version of the School Financial Procedure Manual has now been agreed by Governors and a copy forwarded to Internal Audit.</p> <p>The school have also confirmed that suppliers with the potential to exceed £10k by aggregate or one off spend during 2022/23 have been identified and approval is being sought from Governors.</p> <p>Confirmation that all recommendations have been implemented will be sought in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	School Local Account – Primary School	To provide assurance to the Authority and Headteachers that controls in place in relation to the administration of the School's Local Account are robust, and Financial Procedures are complied with.	Limited	0	0	8	1
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>The school have now moved to using BACS to process their payments through the local account reducing the use of paper cheques.</p>		<ul style="list-style-type: none"> <li>• The school's 'School Financial Procedures Manual' was in need of updating <b>(medium)</b>.</li> <li>• Orders for goods and services were not always raised nor goods received evidenced <b>(medium)</b>.</li> <li>• There is a lack of separation of duties within the day-to-day administration and reconciliation of the account <b>(medium x 2)</b>.</li> <li>• A school debit card for an employee who had left the school in November 2020 had not been cancelled <b>(medium)</b>.</li> <li>• Unpresented cheques were not promptly cancelled <b>(medium)</b>.</li> <li>• Requirements in accordance with the School Financial Procedures Manual and Scheme for Financing Schools relating to purchases greater than £10k were not always followed <b>(medium)</b>.</li> <li>• Administration of the petty cash process was not sufficiently robust <b>(medium)</b>.</li> </ul>		<p>The Final Report was issued in May 2022.</p> <p>The Headteacher has advised that progress has been made in strengthening controls and has self-certified that six of the medium priority recommendations have now been implemented.</p> <p>The School Financial Procedures Manual is in the process of being updated and will be presented to the June 2022 Governors meeting for approval.</p> <p>Unpresented cheques are being investigated and will be cancelled in due course.</p> <p>The Headteacher confirmed the school debit card in the name of the former employee had been cancelled.</p> <p>Evidence checking that all recommendations have been implemented and embedded will be carried out in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	School Local Account – Middle School	To provide assurance to the Authority and Headteachers that controls in place in relation to the administration of the school's local account are robust, and Financial Procedures are complied with.	<b>Significant</b>	0	0	3	3
Good Practice Highlighted		Main Issues Identified and priority of recommendations		Progress Made/Action Taken			
<p>The school is cashless, they do not operate a petty cash float and receive income from parents via Parent Pay thus reducing the risks surrounding cash held on the remises.</p>		<ul style="list-style-type: none"> <li>• Orders for goods and services were occasionally raised retrospectively and evidence of goods received had not always been retained <b>(medium)</b>.</li> <li>• Income was paid into the Local Account which is an expenditure account <b>(medium)</b>.</li> <li>• Requirements in accordance with the School Financial Procedures Manual and Scheme for Financing Schools relating to purchases greater than £10k were not always followed <b>(medium)</b>.</li> </ul>		<p>The Final Report was issued in May 2022.</p> <p>The Headteacher has confirmed two of the medium priority recommendations and one low priority recommendation have been implemented with the remaining three scheduled for implementation by the end of May and September.</p> <p>The Headteacher has advised school orders are now raised at the time the commitment to the budget is made and goods received are recorded.</p> <p>Advice on how to administer income correctly has been sought from NCC Cashiers.</p> <p>Confirmation that all recommendations have been implemented will be sought in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
8	School Local Account – Special School	To provide assurance to the Authority and Headteachers that controls in place in relation to the administration of the school’s local account are robust, and Financial Procedures are complied with.	Limited	0	0	7	1
Good Practice Highlighted		Main Issues Identified	Progress Made/Action Taken				
<p>The school has recently appointed an additional administrative officer who will provide support to the School Manager and contribute to more effective separation of duties in the financial processes.</p>		<ul style="list-style-type: none"> <li>• A ‘School Financial Procedures Manual’ was not in place <b>(medium)</b>.</li> <li>• Strengthening arrangements for the ordering of goods and services, evidencing goods received, and ensuring payments are certified by an authorised approver <b>(medium)</b>.</li> <li>• There is a lack of separation of duties within the day to day administration and reconciliation of the account <b>(medium)</b>.</li> <li>• Income was banked into the Local Account which is an expenditure account <b>(medium)</b>.</li> <li>• Local Account returns had been submitted late <b>(medium)</b>.</li> <li>• Petty cash vouchers were not fully completed for the reimbursement of cash to members of staff and on occasions separation of duties was not evidenced. In addition, VAT was not claimed on six occasions <b>(medium)</b>.</li> <li>• Requirements in accordance with School Financial Regulations relating to purchases greater than £10k are not always followed <b>(medium)</b>.</li> </ul>	<p>The Final Report was issued in May 2022.</p> <p>Recommendations have not yet passed their target dates for implementation.</p> <p>The school confirmed they have an NCC School Financial Procedures Manual which will be updated and personalised to the school.</p> <p>An authorised signatory list and a process to ensure separation of duties will also be progressed, and advice sought for the correct process to administer income.</p> <p>Evidence checking of recommendations to confirm they have been implemented and are embedded will be carried out in due course.</p>				

## 5 Evidence Checking and Progress with Implementation of Recommendations

- 5.1 For recommendations where a Significant Assurance opinion has been issued Internal Audit evidence check that medium, high and critical recommendations have been implemented, once self-certified as implemented by management. For audits where a Limited Assurance opinion has been provided a follow-up audit is included in the following year's Strategic Audit Plan and full implementation and embeddedness of recommendations will be evidence checked at the time of the follow up. In these cases, prior to undertaking the follow-up reviews, managers will be required to self-certify that medium, high and critical recommendations have been implemented.
- 5.2 Internal Audit reports issued during the period November 2021 to May 2022 included one high priority recommendation, thirty medium recommendations and eighteen low priority recommendations. There were no critical priority recommendations in the period under review. In respect of the high recommendation relating to the BACS review, management have confirmed that training has taken place with the System Administration team in advance of a full hand-over which will ensure a separation within the process.
- 5.3 Updates in relation to recommendations contained in Section 4 of this report are included within the summary of each audit at Section 4. Recommendations reported in previous Key Outcomes Reports as having not passed their implementation dates continue to be monitored and evidence checked (Significant & Full Assurance opinions) or management self-certified (Limited & No Assurance opinion) and an update is provided in the table below.

Audit	Issue Identified	Details of Evidence Check/ Progress on Implementation of Recommendations
Delivery of Major Capital Projects <b>(Limited Assurance)</b>	The project management framework required strengthening in a number of areas to bring a consistent and corporate approach when delivering major capital projects. Areas of non-compliance with the Finance and Contract Rules were also found.	Management has self-certified that six of the initial nine medium recommendations have been actioned by incorporating them into a new project management guide with progress being made on the remaining three. Recommendations will be evidence checked during a follow up review planned for 2022/23.
Network Management Follow Up <b>(Limited Assurance)</b>	PCs in the Authority's Libraries for customer use were not segregated from the corporate network.	Management have confirmed discussions with the network supplier have taken place and devices are connected via a Virtual Local Area Network which is segregated from the corporate network. A Network Management audit is included in the 2022/23 Strategic Audit Plan.

Audit	Issue Identified	Details of Evidence Check/ Progress on Implementation of Recommendations
Hardware and Software <b>(Limited Assurance)</b>	Inconsistencies were identified between the daily intake count sheet (the number of devices expected to be collected) and the number of devices recorded as collected.	Information Services advised Asset Disposal Procedures have been reviewed and updated. A follow-up review of Hardware and Software is incorporated within the Strategic Audit Plan 2022/23 where all recommendations will be reviewed to ensure they are fully implemented and embedded.
Information Governance <b>(Limited Assurance)</b>	There is a lack of clarity in relation to the arrangements for GDPR being made by over half of Northumberland Schools.	The Service has confirmed that a central register of schools' data protection officer arrangements where they have not bought into the service offered by the Council is in place. A review of Information Governance is incorporated within the Strategic Audit Plan 2022/23 where all recommendations will be reviewed to ensure they are fully implemented and embedded.
Information Governance <b>(Limited Assurance)</b>	The Council has commenced but has not completed the process of documenting what personal data it holds, where it came from and who it is shared with, reviewing the various types of data processing it carries out, identified its legal basis for doing so and documented it by undertaking an information audit across the Council.	Management has advised all service areas have completed their registers and they have been reviewed by the Information Governance Team.
Information Governance <b>(Limited Assurance)</b>	All systems and applications that record personal data were required to be reviewed to determine whether they facilitate the location and deletion of personal data if requested by a data subject.	The information asset register project is now complete. The 'Right to Erasure' requests have been easy to identify what services/systems are affected by the request. Information Governance now liaise with those services to understand when it is /is not possible to remove the data held.

## 6 Programme Assurance and Grant Certification Work Undertaken

Area of Work	Summary of Work Undertaken
<b>Covid 19 Business Grants Schemes</b>	Since the onset of the Covid 19 pandemic Internal Audit has been heavily deployed in supporting the Council's response, including providing assurance as the Council developed new systems and processes related to work brought about by the pandemic, for example the numerous business grant funding streams. In recent months Internal Audit's role has been focussed on pre and post payment assurance work and returns in relation to business grant schemes as well as certification of central government grant returns.
<b>Covid 19 Bus Services Support Grant</b>	To provide support to local bus services that may be experiencing shortfall in revenue due to Covid 19. Grant certified to the value of £0.39m.
<b>Participation in the Cabinet Office's National Fraud Initiative</b>	Northumberland County Council participates in the National Fraud Initiative (NFI) data matching exercise to assist in the prevention and detection of fraud and is required to provide sets of data to the Minister for the Cabinet Office for matching for each exercise. The Cabinet Office released results of the latest biennial NFI data-matching exercise matches in January 2021, Internal Audit allocated the appropriate matches to the relevant services for investigation, this exercise is largely complete with some work ongoing. Internal Audit submitted data for the Annual Council Tax Discounts exercise in December 2021, data matches have been allocated to appropriate officers for investigation, this exercise is ongoing. Additional Business Grant data sets, as part of the counter fraud response to the government Covid 19 relief programme are also in place, the 'Grant Recipients' data matches from the first submission have been allocated to appropriate officers for investigation, and the results of a second (and final) submission made in March 2022 are pending.
<b>Schools Financial Value Standard</b>	On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinated, received and reviewed Schools' Financial Value Standard submissions, for the Authority's grant-maintained schools. It can be confirmed that all eligible maintained schools submitted their self-assessments by the deadline of 31 March 2022. The annual Assurance Statement is currently being completed for submission by the deadline of 31 May 2022.
<b>Supporting Families Grant Certification</b>	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. The following claims were audited and certified: November 2021 claim value £0.05m, January 2022 claim value £0.07m and March 2022 claim value of £0.04m.
<b>Tour of Britain Grant Certification</b>	NTCA funding for Tour of Britain. Claim certified to the value of £0.35m.