Northumberland
County Council

Internal Audit and Risk Management Service

Key Outcomes from Internal Audit Assignments
(November 2022 – April 2023)

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 2022 – April 2023. 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.

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. Two of the audit assignments received a 'reasonable assurance' opinion, four received a 'limited assurance' opinion, with one assignment where an opinion was not expressed. There were 30 'medium' priority recommendations made, but no 'critical' or 'high' priority recommendations. These reports are detailed in **Section 4** below.

2.4 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. Details of evidence checking processes are included at **Section 5** below.

2.5   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.

2.6   Internal Audit has completed the certification of a number of grant returns, and has continued to be involved in the post payment assurance and counter fraud elements of covid business grants.

2.7   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.

2.8   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.

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. During 2022-23 the opinion classifications were amended and a new Internal Audit report format introduced. The current opinion classifications are set out in the following table:

Level of Assurance	Description
Substantial Assurance	There is an effective system of internal control in place designed to achieve the Council's objectives with only minor issues being identified which require improvement.
Reasonable Assurance	There is a generally sound system of control in place. However, some weakness in the design of, or occasional non-compliance with, key controls put the achievement of the system's objectives at risk in some areas reviewed.
Limited Assurance	Weaknesses in the design of, or regular non-compliance with, key controls put the achievement of the system'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 system'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:

Classification	Description
Critical	Action that is considered critical to ensure the organisation is not exposed to unacceptable risk and the recommendation should be implemented immediately.
High	Action that is considered urgent to ensure the service area is not exposed to high risks and the recommendation should be implemented as a priority.
Medium	Action that is considered necessary to avoid exposure to considerable risks and the recommendation should be implemented within an appropriate time frame.
Low	Action that is considered desirable or best practice and would result in enhanced control or better value for money.

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

4 Main Outcomes – Audit Reports Issued during period November 2022 – April 2023

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
1	Oracle Fusion ICT System Review	To determine whether the Oracle Fusion system and procedures in operation are functioning satisfactorily.	**Limited**	0	0	6	3

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made/Action Taken
There were effective automated back-up controls in place for the Oracle Fusion system. Daily back-ups were created and retained for one week, additionally there were two weekly back-ups created which were retained for four weeks. Backups were stored securely. Inactive user reviews were completed every three months, accounts which are identified as inactive were reviewed and locked as required. A review of user access was completed with services annually, with services required to confirm staff user access is appropriate.	• Audit log reports and the Authority's Security Information Event Management (SIEM) software were not being used to monitor the system for potential error and security events. **(2 x Medium)** • Password control requirements were not in line with the corporate standard. **(Medium)** • Assurance could not be provided that a segregation of duties had been maintained within customised user profiles. **(Medium)** • There were six generic user accounts with administrative access which have been created for Information Services. **(Medium)** • Testing to provide assurance that the secondary back up system is functioning correctly and can be utilised effectively in the event of primary system failure had not been completed. **(Medium)**	The Final Report was issued on 27 March 2023. At the time the final report was issued, management self-certified that two medium priority recommendations had been implemented. Two of the remaining recommendations have not passed their target implementation dates. Management have confirmed that two factor identification is scheduled to be implemented, in order to reduce security risks. In accordance with Internal Audit's agreed processes, a follow-up review has been included within the 2023/24 Strategic Audit Plan.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
2	Office 365 System Review	To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with Council policy.	**Limited**	0	0	4	6

Good Practice Highlighted	**Main Issues Identified and Priority of Recommendations**	**Progress Made/Action Taken**
There were effective automated back-up controls in place for the Office 365 system. Daily back-ups were created and retained. Backups were stored securely within high availability cloud storage.	• Conditional access settings which allow users to access the system via mobile devices were not effective and secure. Users may access the system from devices without security features enabled. **(Medium)** • There were six generic user accounts with administrative access which have been created for Information Services (IS). **(Medium)** • The review of the accounts of senior staff leaving the Council, to ensure that data is retained or deleted as appropriate was not being carried out fully. **(2 x Medium)**	The Final Report was issued on 9 March 2023. Internal Audit has been able to confirm that one medium priority recommendation has been implemented and management have self-certified that another medium priority recommendation has been implemented. The remaining two medium recommendations have not yet reached the agreed target implementation date. In accordance with Internal Audit's agreed processes, a follow-up review has been included within the 2023/24 Strategic Audit Plan.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Public Services Network (PSN) Code of Connection Submission 2022	To provide independent assurance on the accuracy of the PSN submission prior to authorisation of the submission by the Chief Executive.	**Not Applicable**	-	-	-	-

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made/Action Taken
A Remedial Action Plan has been developed by Information Services, including responses to all issues identified by testing undertaken by an independent specialist company.	• Information Services did not provide Internal Audit with the PSN submission until after the deadline for submission. Once Internal Audit's review was completed and the submission was authorised by the Interim Chief Executive, the form was submitted over a month after the recertification deadline. • A review of the submission form identified that the 'Security Gaps' section of the form had been completed incorrectly. • Security testing had been carried but at the time of the audit review, only 76% of 'high' and 59% of 'medium' priority issues had been resolved. • The Cabinet Office did not accept the submission and requested the Council to make progress against the twelve of the sixteen 'high' priority issues specifically related to the telephony infrastructure. • One of the high priority issues did not have an estimated timeframe for resolving it recorded.	The Final Briefing Note was issued on 17 November 2022. Action has been taken by Information Services and the PSN accreditation was achieved in January 2023. Public Services Network (PSN) Code of Connection Submission 2024 is scheduled to be reviewed as part of the Internal Audit Plan 2023-24 and issues identified will be followed up as part of that review.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Hardware & Software Follow Up	To follow up on recommendations agreed with management and determine whether matters arising in relation to controls and procedures in operation over the acquisition, management, reconciliation and disposal of the Council's computer hardware and software assets have been resolved.	**Limited**	0	0	2	0

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made/Action Taken
Revised security controls prevent devices which are inactive for 90 days or more, or have versions of Microsoft Windows which are no longer supported with security updates, from accessing the network.	Three recommendations were outstanding from the previous audit carried out in 2021/22. Of the three recommendations, one was found to be implemented, one had not been implemented and in the area of the third recommendation it was found that further action was required. • The re-issued recommendation related to storing securely and maintaining accurate records of devices for disposal. **(Medium)** • The revised recommendation related to the operating systems of devices not being reviewed and that end of life planning for devices was not in place. Testing identified 31 devices with Windows 7 operating system installed, for which security support ceases on 10/01/2023. **(Medium).**	The Final Report was issued on 3 January 2023. Management have confirmed that a new provider for disposals is now in place and has made their first collection. A spreadsheet list of items collected by them is maintained. Management have also confirmed that Security Configuration Management software is in place to monitor and manage the end of life for operating systems installed on devices. An Internal Audit review of Hardware & Software is scheduled to be carried out as part of the Internal Audit Plan 2023-24.

	Audit Title	Audit Objectives		Assurance Opinion	Recommendations			
					Critical	**High**	**Medium**	**Low**
5	Schools Thematic Reviews – Value for Money –First School	To review and appraise the adequacy and effectiveness of controls and procedures in place to achieve value for money in accordance with the Scheme for Financing Schools, Local Authority guidance and best practice.		**Reasonable**	0	0	6	5
Good Practice Highlighted		**Main Issues Identified and Priority of Recommendations**			**Progress Made/Action Taken**			
Testing confirmed that there is a generally sound system of control in place in most of the areas examined.		- The 2022/23 budget summary was distributed to Governors, by email. However, there was no evidence in minutes examined to confirm the Governing Body had formally approved the budget. **(Medium).** - The Governing Body were not receiving monitoring reports of the school's budget position. **(2 x Medium).** - The School Development Plan did not include any costs associated with improvement actions. **(Medium).** - Two expenditure items which exceeded £10k were identified. In each case, only one quote had been received and required approval from the Governing Body was not evidenced **(Medium).** - Several contracts are in place, but legal advice in respect of these had not been sought. A copy of the photocopier contract could not be provided, and approval by the Governing Body was not evidenced. **(Medium).**			The Final Report was issued on 28 April 2023. The last target implementation date for the recommendations is September 2023 after which the school will be contacted to confirm implementation of the recommendations.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	Schools Thematic Reviews – Value for Money – Primary School	To review and appraise the adequacy and effectiveness of controls and procedures in place to achieve value for money in accordance with the Scheme for Financing Schools, Local Authority guidance and best practice.	**Reasonable**	0	0	3	2

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made/Action Taken
Testing confirmed that there is a generally sound system of control in place in most of the areas examined.	• A School Development Plan is in place however the plan did not include any costs associated with improvement actions **(Medium).** • Two cases where accumulated expenditure exceeded £10k, highlighted requirements in accordance with School Financial Regulations relating to purchases were not always followed **(Medium)**. • Examination of three contracts established that two were reviewed by the school's legal adviser, however there was no evidence that legal advice was sought for the third contract **(Medium)**.	The Final Report was issued on 28 April 2023. The last target implementation date for the recommendations is September 2023 after which the school will be contacted to confirm implementation of the recommendations.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	Civil Contingencies and Business Continuity Audit	To review the arrangements in place for Business Continuity Management (BCM) across the Council and to assess its ability to maintain continuity in the event that a business disruption was to occur.	**Limited**	0	0	9	1

Good Practice Highlighted	Main Issues Identified and Priority of Recommendations	Progress Made/Action Taken
The audit has identified that progress has been made since the previous audit in 2020. The Civil Contingencies Team have developed new Business Impact Analysis and Business Continuity Plan templates and almost all service areas have completed and returned these to the Civil Contingencies Team. The Civil Contingencies Team are in regular contact with the service areas yet to provide their Business Continuity Plans.	• The Business Continuity Management Policy & Framework has been periodically reviewed, but it could not be confirmed that the Policy & Framework had been reviewed and approved by Executive management. **(Medium).** • At the time of the audit, four service areas had not yet completed their Business Impact Analysis and/or their Business Continuity Plan. **(Medium).** • A review of five service areas' Business Continuity Plans shows the Plan Owner, Issued Date or Review Date was not recorded in three of the five plans **(Medium).** • One of the business continuity plans identified the scenario of a lost or stolen laptop. However, a potential data leak was not addressed nor the requirement to contact the Information Governance team **(Medium).** • Once all business continuity plans are completed and issued to the CCT, a physical copy will be stored at the safe off-site location. However, until this is implemented the risk remains that plans cannot be put into action if the electronic version is not available **(Medium).** • Corporate purchase cards were temporarily used to support the Authority during the pandemic but have	The Final Report was issued on 28 April 2023. The report recognised that the next critical phase in developing the Council's Business Continuity arrangements is a corporate issue cutting across all service areas to ensure all employees with responsibilities for Business Continuity are appropriately trained and that a regime of testing of BCPs is developed and maintained. Management has self-certified that five medium priority recommendations have been implemented and that work on implementing a further two recommendations is progressing, with interim arrangements in place. The two remaining medium priority recommendations have not yet reached the agreed target implementation date, but management have advised that implementation is on target. In accordance with Internal Audit's agreed processes, a follow-up review will be

	now been returned. There may be occasions out of normal working hours where purchase orders would not be possible, and the use of corporate purchase cards may be the most appropriate solution **(Medium).** • Arrangements for business continuity training required strengthening. **(Medium).** • An Executive Team on-call rota exists for responding to major incidents, however, of the 16 individuals listed, only eight were members of Executive Team **(Medium).** • All service area and several corporate business continuity plans had yet to be tested **(Medium)**.	scheduled in the year following the audit being finalised. In this instance a follow-up review will be scheduled within the 2024/25 Strategic Audit Plan.

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 the undertaking of 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 2022 to April 2023 included 30 medium priority and 17 low priority recommendations. There were no critical or high priority recommendations in the period under review. Of these recommendations issued, 21 of the medium priority recommendations related to limited assurance opinion audits for which follow ups will be included within the 2023/24 and 2024/24 Audit Plans, and evidence checking of recommendations carried out at this time. Additionally, the Public Services Network (PSN) Code of Connection Submission will be reviewed in 2023 and progress will be considered at that time. The remaining 9 medium priority recommendations were made to two schools, both of which have the last target implementation date of September 2023 after which the school will be contacted to confirm implementation of the recommendations and appropriate evidence checking performed.

5.3   A new system for the monitoring and reporting of Internal Audit recommendation implementation has been developed with Information Services and is planned to be finalised and implemented during 2023/24. This will enable Internal Audit to monitor and report on the implementation of Internal Audit recommendations more effectively in future reports to Audit Committee.

6 Programme Assurance, Grant Certification and Investigation Work Undertaken

Area of Work	Summary of Work Undertaken
Project Assurance – Tribepad	An overview of IT controls within the Tribepad recruitment system prior to the system going live in April 2023. No significant issues were identified from this work.
Internal Audit reviews in relation to potentially unlawful payments following s114A report	A number of reviews were completed at the request of the Executive Director – Transformation and Resources (s151 Officer) in relation to potentially unlawful payments following the s114A report
Alleged bank mandate fraud	Internal Audit undertook a review to determine whether a fraudulent payment may have occurred and whether weaknesses in controls may have been a contributing factor. The review found that there was evidence of a fraudulent payment being made and the police and relevant bank fraud teams were notified. Internally, action has been taken to strengthen controls.
Two investigations regarding falsification of Council document	Internal Audit supported a service area in two separate reviews where what appeared to be Council documents were in the possession of residents/business owners. The review found that the documents in question had not existed in, or been issued from, Council systems. Both matters were referred to the police and the residents/business owners were provided with an update.
Participation in the Cabinet Office's National Fraud Initiative	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. Co-ordination of submission of data for the 2022/23 national exercise and compliance with data protection requirements
Schools' Financial Value Standard	On behalf of the Chief Finance Officer (s151 Officer), Internal Audit co-ordinate, receive and review Schools' Financial Value Standards submissions, for the Authority's grant-maintained schools. Internal Audit liaised with schools to ensure that assessments were submitted by all eligible schools by the statutory deadline of 31 March 2023 and the required assurance statement was completed on behalf of the Executive Director of Transformation and Resources (s151 Officer) prior to the DfE submission deadline.

Area of Work	Summary of Work Undertaken
Grant Certification – Supporting Families	Programme of targeted intervention – Government pays local authorities for each family that meet set criteria. 3 returns were submitted by the Council in the period: • November 2022 Return Certification Value £0.028m • January 2023 Return Certification Value £0.106m • March 2023 Return Certification Value £0.020m
Grant Certification – Adult Weight Management Services Grant	Supporting adult weight management services to support people living with excess weight and obesity to lose weight and maintain healthier lifestyles. Certification Value £0.118m.
Grant Certification – Green Homes Grant Local Authority Delivery (GHG LAD) 2	The GHG LAD scheme sets out to improve the energy efficiency rating of low income and low EPC rated households. Nine Solar PV installations were completed. Certification Value £0.0288m.
Grant Certification – Biodiversity Grant	The Environment Act 2021 includes provisions that make the achievement of 10% biodiversity gain mandatory for most developments under the Town and Country Planning Act 1990. Biodiversity net gain (BNG) is an approach to development that leaves biodiversity in a measurably better state than before. This means protecting existing habitats and ensuring that lost or degraded habitats are compensated for by enhancing or creating habitats that are of greater value to wildlife and people. The requirement is due to come into force in November 2023. The purpose of this grant is to provide funding to the local authorities towards expenditure incurred in their preparations for the introduction of mandatory BNG. Certification Value £0.043m.