



**Northumberland**  
County Council

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

### **Key Outcomes from Internal Audit Assignments (July 2021 – November 2021)**

# 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 July 2021 –November 2021. 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 five audit assignments are presented. For one of the audits an opinion was not applicable. Of the remaining four assignments, one received a ‘significant assurance’ opinion and three received a ‘limited assurance’ opinion. No ‘critical’ or ‘high’ priority 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 Internal Audit has continued to be heavily deployed in assurance work necessitated by the Coronavirus pandemic. This has involved project assurance and development of systems related to business grant funding, and advising teams involved on suitable controls. Internal Audit has also led on the post payment assurance and counter fraud elements of the business grants, as well as having completed the certification of a number of other 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.
- 2.7 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.

### 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:

<b>Priority</b>	<b>Classification</b>	<b>Description</b>
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 2021

## 5 Main Outcomes – Audit Reports Issued during period July 2021 – November 2021

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Delivery of Major Capital Projects	To provide management with an assurance opinion on whether there is a framework of control operating effectively to mitigate key risks within the area of delivery of major capital projects.	<b>Limited</b>	0	0	9	2
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>The traffic light system used in performance management reports clearly highlight whether projects are at risk and enable the project board to immediately focus on those specific areas that could jeopardise the successful delivery of the project.</p>		<ul style="list-style-type: none"> <li>Ensuring that the Capital Strategy Group fulfil all obligations as outlined in the Finance and Contract Rules in relation to the Post Project Evaluation (PPE) process <b>(Medium)</b>.</li> <li>Developing guidance, clearly defining what constitutes a major capital scheme and subsequently the required project governance <b>(Medium)</b>.</li> <li>Ensuring consistency in the level of information detailed within project boards' terms of reference, for example the quorum of a board meeting <b>(Medium)</b>.</li> <li>A Business Case and Project Initiation Document are not always in place <b>(Medium)</b>.</li> <li>Developing corporate standard guidance for project managers to follow to provide consistency across the organisation <b>(Medium)</b>.</li> <li>PPEs are not consistently carried out. A process is not in place for collating and sharing information derived from PPEs <b>(Medium)</b>.</li> </ul>		<p>The final report was issued in August 2021.</p> <p>Recommendations have not yet reached their target dates for implementation and will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Information Governance, General Data Protection (GDPR) Follow Up	To revisit the key matters arising identified during Internal Audit's previous Information Governance review.	Limited	0	0	10	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<ul style="list-style-type: none"> <li>The Authority links the completion of Data Protection Impact Assessments (DPIAs) to other organisational processes such as risk management and project management.</li> <li>The Authority has designated the Information Governance Manager as its Data Protection Officer (DPO) who has overall responsibility for data protection compliance.</li> <li>Training, whether e-learning or face-to-face, is mandatory and subject to annual refresh. Managers can run a certifications report at any time from Learning Pool which will give the completion status of their employees.</li> </ul>		<ul style="list-style-type: none"> <li>Resource implications of implementing GDPR have not been fully addressed <b>(Medium)</b>.</li> <li>Information Asset Registers (IAR) have not been completed by some services, nor collated by the Data Protection Officer <b>(2 x Medium)</b>.</li> <li>Review of existing contracts under £50k to ensure compliance with GDPR is not complete <b>(Medium)</b>.</li> <li>A review to determine whether Information Sharing/Data Processing Agreements are in place for all relevant contracts is not complete <b>(Medium)</b>.</li> <li>Strengthening oversight of GDPR arrangements within schools <b>(Medium)</b>.</li> <li>Systems and applications do not always facilitate the location and deletion of personal data if requested by a data subject <b>(Medium)</b>.</li> <li>Implementation of document retention functionality within Office 365 <b>(Medium)</b>.</li> <li>Ensuring that different retention periods for specific data is applied to files stored in the electronic document management system. <b>(Medium)</b>.</li> <li>Confirming that audit trails are in place for recording consent of data subjects to process personal data <b>(Medium)</b>.</li> </ul>		<p>The Final Report was issued in September 2021.</p> <p>Internal Audit's original review resulted in fifteen medium priority recommendations, five of which can now be confirmed as implemented. Revised target dates for the remaining ten have been agreed and will be followed up in due course.</p> <p>Management reported that resources have been an issue that has impacted on implementation of recommendations. Two new appointments into the Information Governance team have been made and management has indicated further resources are being considered.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Accounts Payable (AP) & Procure to Pay	<p>To evaluate the 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. The audit covered 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>	<b>Significant</b>	0	0	2	5
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<p>There were many areas of good practice identified, including:</p> <ul style="list-style-type: none"> <li>• Manual orders are only to used for emergency payments or refunds.</li> <li>• The manual payment request forms in use are comprehensive.</li> <li>• Payment is only released following goods receipting in the IP system by the service. The system will automatically send reminders if the goods are not receipted.</li> </ul>		<ul style="list-style-type: none"> <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 September 2021.</p> <p>Progress has been made in relation to the old Purchase Card scheme which is being fully decommissioned during November 2021 and all old-style VISA cards replaced where required. A revised target date for implementation of the recommendation has been agreed.</p> <p>The remaining recommendation has not yet reached the agreed target date and will be followed up in due course.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Hardware and Software Management	To determine whether controls and procedures in operation over the acquisition, management, reconciliation and disposal of the Authority's computer hardware and software assets are appropriate and operating effectively.	Limited	0	0	3	9
Good Practice Highlighted		Main Issues Identified and Priority of Recommendations		Progress Made/Action Taken			
<ul style="list-style-type: none"> <li>Information Services (IS) hold a database of all purchases made by the Authority, including, asset tag numbers, serial numbers, make and model of devices.</li> <li>IS maintain sheets within the database for insurance purposes, which includes the necessary requirements.</li> <li>An in-depth spreadsheet regarding all purchases made as part of the desktop refresh program is in place.</li> <li>IS have a contract which includes the procurement, build and shipping of devices. The contractor holds the stock for the Authority in a bonded warehouse and stock is made available to the Authority as and when it is requested.</li> </ul>		<ul style="list-style-type: none"> <li>Strengthening arrangements to ensure that end-user devices are automatically removed from the network, should they not have been connected to the network for 90 days <b>(Medium)</b>.</li> <li>Reviewing ICT asset disposal processes and documenting procedures for the disposal of hard drives <b>(Medium)</b>.</li> <li>Ensuring that all devices have the most up to date version of Windows operating system installed <b>(Medium)</b>.</li> </ul>		<p>The Final Report was issued in August 2021.</p> <p>Management has reported that there is now a process in place which disables the computer account of devices with old versions of Windows. There are still some specific devices which are required to use a previous version of Windows, however extended support has been purchased for these devices and they are receiving Windows updates until they can be replaced.</p> <p>This recommendation was selected for evidence checking and Internal Audit can confirm that the recommendation has been implemented.</p> <p>Revised target dates for implementation of the remaining two recommendations have been agreed.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Northumberland Fire and Rescue Service (NFRS) Improvement Action Plan Briefing Note	In 2019 NFRS were assessed by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) as "requires improvement" in all three assessment areas, effectiveness, efficiency and people/leadership. NFRS developed an Improvement Action Plan and Internal Audit were requested to review this prior to a further HMICFRS inspection.	N/A	0	0	0	0
Good Practice Highlighted		Main Issues Identified and Priority of Recommendation		Progress Made/Action Taken			
<p>Internal Audit noted a significant improvement in the quality of the Improvement Action Plan, the governance of the plan is clearly defined on the first page and a clear link can now be identified between the source of an initiative (e.g. the HMICFRS inspection), the actions identified, and progress made. A Continuous Improvement Plan dashboard has been created to give an overall view of all initiatives under way. The new documentation is designed to be heavily evidence based.</p>		<p>A number of new systems and processes have been implemented in order to progress actions identified from the inspection review. New systems and processes for managing improvement actions are continuing to be developed. Therefore, due to the developmental stage of the new processes, Internal Audit was not yet able to verify that these adequately address the Fire Service's key priorities.</p> <p>One finding in relation to the new documentation was the level of work and resources required to keep the Continuous Improvement Plan and associated documentation up to date and if insufficient resource was allocated, the process may suffer. It was therefore agreed that a more automated version of the documentation be developed.</p>		<p>The Briefing Note was issued in September 2021.</p> <p>The NFRS agreed with Internal Audit's finding regarding the level of resource that may be required to keep the Continuous Improvement Plan and associated documentation up to date and confirmed they will be monitoring this and the Seconded Team Leader will be responsible for managing and overseeing the process until a more automated version of the process, which is currently being worked on, is operational.</p> <p>Work is continuing within NFRS to populate the new documentation, which will need to be further updated once the latest HMICFRS inspection report is received.</p>			

## 5 Evidence Checking

- 5.1 Internal Audit reports issued during the period July 2021 to November 2021 included 24 medium priority recommendations. There were no high or critical priority recommendations in the period under review. In respect of the 24 medium priority recommendations, one having passed its target date, was evidence checked and can be confirmed as implemented. Twenty recommendations have not reached their target dates and revised target dates have been agreed for the remaining three.
- 5.2 Recommendations previously reported as having not passed their implementation dates have now been subject to evidence checking and details are provided in the table below:

Audit	Issue Identified	Details of Evidence Check
Procurements over £50k	Finance and Contract Rules state in paragraph 4.4.1 it is required that the appropriate Executive Member is consulted where exemptions to the Rules are requested. However, the report template does not require consultation with the appropriate Executive Member to be recorded.	Management provided a copy of the revised template for the Report seeking Exemption of NCC Finance and Contract Rules – General Waiver of any of the Finance and Contract Rules and this includes a section for the requestor of the waiver to confirm that the appropriate Executive Member (Portfolio Holder) has been consulted.
Procurements over £50k	The template of the report seeking authorisation to appoint consultants did not include a section for demonstrating that the use of the consultant is necessary and a section for demonstrating how the use of the consultant offers value for money to show and record full compliance with the Finance and Contract Rules.	Management provided a copy of the revised template for requesting consultants and this includes a section for demonstrating that the use of the consultant is necessary and a section for demonstrating how the use of the consultant offers value for money.

Section 106 Agreements	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.	A review of offsite affordable housing contributions was carried out alongside work on the emerging Northumberland Local Plan. The revised approach is included as Appendix D Affordable Housing in the Schedule of Main Modifications to the Northumberland Local Plan.
Section 106 Agreements	Various spreadsheets were being used to monitor the collection of contributions, expenditure from contributions received and for s106 triggers being reached. This was prior to the introduction of Exacom, the system for monitoring contributions. The system was therefore not being fully utilised and was to be investigated to establish its full capabilities (2 medium recommendations attributable to this issue).	The system capabilities have now been investigated. A report can now be exported from Exacom which is used for monitoring trigger points and review dates. Evidence of this report has been provided. However following investigations and due to Exacom being unable to produce reports to reflect the whole of the information held on these historic spreadsheets, they are still currently in use.
Accounts Receivable	Due to the COVID-19 pandemic the debt recovery process was suspended to support residents and businesses, however, there was no plan or timetable in place to recommence this process.	Recovery action has commenced, weekly reminder letters are currently being issued and debts are being passed over to collection agents based on priority. The weekly recovery action report/listing has been provided as evidence of implementation.
Payroll	From a sample of leavers, one case was identified where the final pay in lieu of notice had been recalculated by HR incorrectly	The process for checking calculations has been reiterated to the team responsible for payments. HR have also been reminded of the process.

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	8	8	100%	N/A	N/A
Total	8	8	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>	<b>Post Payment Assurance and Government Returns</b> – undertaking and advising on a range of post payment assurance activities, including utilising the governments ‘Spotlight’ due diligence tool. As part of the government’s requirements, a number of grant scheme risk assessments, assurance plans and government returns on post payment activity have been completed. Approximately £200m of expenditure is within scope of the assurance work.
<b>Covid-19 Additional Home to School Transport</b>	Funding to provide additional dedicated school and college transport capacity. Value of claims certified this period £1m.
<b>Local Transport Capital Block Funding 2020/21</b>	Integrated Transport and Highways Maintenance. Completed and submitted to Department for Transport. Total value of grant £32.17m
<b>Bus Service Operators Grant 2020/21 Statement of Grant Usage</b>	Statement of Grant Usage - completed and submitted to Department for Transport by deadline of 30 September 2021 – £0.5m.

<b>Troubled Families Grant Certification</b>	Programme of targeted intervention - Government pays local authorities for each family that meet set criteria. September 2021 Claim certification work complete, 89 families, value £0.124m.
<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>• Adult Social Care Partnership Arrangements; and</li> <li>• Application of CIPFA Financial Management Code &amp; Standard</li> </ul>
<b>Schools' Financial Value Standard</b>	On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinate, receive and review Schools' Financial Value Standard submissions, for the Authority's grant-maintained schools. This work has commenced for the year ending 2021/2022.
<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. The Cabinet Office released results of the latest biennial National Fraud Initiative (NFI) data-matching exercise matches in January 2021, Internal Audit have allocated the appropriate matches to the relevant services for investigation, this exercise is ongoing. An additional data set, as part of the counter fraud response to the government Covid-19 relief programme was introduced, the 'Grant Recipients' data matches were released in May 2021, data matches have been allocated to appropriate officers for investigation, this exercise is ongoing.</p> <p>Internal Audit commenced the annual Council Tax Single Person Discount exercise in October 2021, relevant officers have been contacted and requested to provide the required data sets for upload in December 2021.</p>