

Internal Audit Service

Key Outcomes from Internal Audit Reports Issued April to September 2015

November 2015



1 Introduction – the Framework of Governance, Risk Management and Control

- 1.1 Internal Audit is an independent and objective assurance function designed to add value and improve an organisation's operations. Under 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 the key findings and governance themes from Internal Audit's work. This is also emphasised in the PSIAS which requires 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.
- 1.3 In our organisation, the Chief Internal Auditor's formal opinion is reported to the Audit Committee each May, timed to support preparation of the Authority's Annual Governance Statement. 'Opinion' in this context does not mean 'view', 'comment' or 'observation'; it means that Internal Audit must have performed sufficient, evidenced work to form a supportable conclusion about the activity it has examined.

2 Purpose of this Report

- 2.1 This report summarises the outcomes from Internal Audit reports which were finalised in consultation with management and issued in the six month period April to September 2015. Reporting on this period allows management the opportunity to have implemented and embedded recommendations; and Internal Audit to have then reviewed this implementation and to form a judgement on whether the control issues identified have been satisfactorily addressed. 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. As discussed at previous meetings of the Audit Committee, Internal Audit has also followed up and evidence checked reported progress, on a sample basis weighted according to priority and materiality.
- 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.

3 Opinion on the Framework of Governance, Risk Management and Control (November 2015)

- 3.1 On the basis of the Internal Audit work performed and described in this report, and work performed from the approved Strategic Audit Plan for 2015/16, the Chief Internal Auditor's opinion is that the organisation's internal systems of governance, risk management and control are **satisfactory**. This is a positive opinion for the organisation.
- 3.2 In this report, details of 5 audit opinions are presented. All of these were 'moderate assurance' opinion classification or higher. No 'critical priority' recommendations were made. At the time of writing, a number of additional audit reports are in the process of finalisation / issue to our audit clients. This is due to the time required to be spent in the first 6 months of 2015/16 on a number of additional, unplanned areas, including requests for assistance from Northumbria Police. These reports will be included in the next report to the Audit Committee, but the findings do not change our opinion on the framework of governance, risk management and control at this stage in the year.

4 Opinion Framework

- 4.1 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.

Full Assurance	There is a sound system of control with key controls consistently applied.
Significant Assurance	There is a sound system of control, although there are some minor weaknesses in the system and/or occasional non-compliance with key controls.
Moderate Assurance	While there is a basically sound system of control, there are some weaknesses in the system and evidence of regular non-compliance with key controls.
Limited Assurance	The system of control is insufficient.
No Assurance	There is no system of control in place.

- 4.2 The opinions given to audits issued during this period are shown in **Section 5**.
- 4.3 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	Description
1* Critical	Action considered imperative to ensure the organisation is not exposed to unacceptable risks.
1 High / Fundamental	Action that is considered imperative 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.

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

4.5 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. The programme assurance and project boards supported by Internal Audit is shown below. Whilst time spent on such assurance work reduces the number of available audit days, it is considered an efficient use of Internal Audit resource, in that assurance is obtained that effective controls are incorporated into new systems from the outset. In turn, this minimises the risk of weaknesses in systems and strengthens the control environment. Internal Audit has supported the following Project Boards (in a programme assurance role) and Working Groups during the period under review:

Banking Services Contract
Electronic Document and Records Management System (EDRMS)
Information Security Group
ICT Performance and Prioritisation Board
Public Services Network
Petty Cash Process Review
Cashless Projects
Technology and Information Systems Strategy Board
Troubled Families Stakeholder Group

4.6 Internal Audit has also continued to support a significant number of special investigations and management requests in this time period, including follow-up to matters previously reported to the Audit Committee in May 2015 related to Northumbria Police. The volume of additional audits, including the requests for support from Northumbria Police has consequently reduced the number of audits completed during the period April to September 2015.

IA/AHM/KM/KH
November 2015

5 Main Outcomes – Audit Reports Issued During the Period April to September 2015

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Northgate Housing System Review	To determine whether the systems and procedures in operation for the Northgate Housing system are functioning satisfactorily and are in accordance with legislation and council policy and to provide an opinion to Management on the effectiveness of the system of internal control in place.	Moderate	0	0	6	26
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<p>The Housing Application Support (HAS) Team proactively monitors user accounts by running monthly reports which identify users of the system that have not changed their passwords for more than eight weeks and may be potentially obsolete.</p> <p>The Housing Intranet contains multiple training and guidance documents to support users in their use of the system.</p> <p>Effective back up routines, managed by ICT (Cofely), are in place. These allow users to access the system whilst the back up is in progress and is an improvement on previous back up routines.</p>		<p>Extracts received from the Abris sub-regional choice based lettings solution which interfaces with the system, include sensitive data that Council employees had no business need to see.</p> <p>Employees were identified with high-level access rights to the system that were disproportionate to their business needs.</p> <p>There were no procedures in place to archive data from the system. NTH therefore holds obsolete data that it has no business need to retain, does not maintain and cannot assure the accuracy of. This may be in breach of the 4th and 5th principles of the Data Protection Act 1998. Discussions with ICT (Cofely) and the HAS Team confirmed that an archiving module had been developed by Northgate but had not been procured. Volumes of data held within the system will be a factor in the length of time required to complete back up procedures and may also be a factor in performance issues identified.</p>		<p>Management have confirmed that of 6 medium priority recommendations, 3 of them relating to Abris extracts and some access rights have been fully implemented. The 3 remaining medium priority recommendations have been partially implemented. Of 26 low priority recommendations, 19 have been fully implemented, 3 have been partially implemented and 4 have not been implemented.</p> <p>A number of recommendations not yet fully implemented are dependent on the centralisation of system support teams which is currently being finalised and revised target dates of 31 March 2016 have been agreed for full implementation.</p> <p><i>Internal Audit selected this service area as part of our sample of evidence checking and was able to confirm that all 3 medium priority recommendations self certified as implemented have been implemented and satisfactory progress is being made towards full implementation of all remaining medium priority recommendations.</i></p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Rent Arrears and Former Tenants' Rent Arrears	To document and evaluate the systems in place for recording current and former tenants' rent arrears. To assess whether rents owed to the Authority, by current and former tenants have been effectively pursued before write-off procedures are administered. To appraise the performance of external agencies used in the investigation and recovery of such debt on behalf of the Authority.	Significant	0	0	2	1
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<p>During testing it was identified that all rent accounts examined were updated promptly in the Northgate Housing Rent system.</p> <p>Rent accounts were regularly monitored and recovery actions were performed within agreed timescales.</p>		<p>There was no policy or agreed procedure in place for writing off arrears in respect of bankrupt tenants and accounts and balances were transferred from individual rent accounts to a bankruptcy holding account.</p> <p>Conflict of Interest forms were completed by North Tyneside Homes staff. However, there was no field on the form to record the date of completion, nor did the form require the individuals to sign to confirm recorded information was correct.</p>		<p>Management have confirmed that all recommendations have been fully implemented. All write offs procedures are now in accordance with the Corporate Write Off Policy and the Officer Delegation Scheme has been amended to reflect this. Conflict of Interest forms have now been amended to record the date and signature of the officer completing the form.</p> <p><i>Internal Audit selected this service area as part of our sample of evidence checking and was able to confirm that both medium priority recommendations have been implemented.</i></p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Council Tax	To determine whether the procedures in operation for administration of the Council Tax system are operating satisfactorily in accordance with legislation. Particular emphasis will be placed upon assessing compliance with controls over billing, Council Tax banding amendments and recovery.	Significant	0	0	2	1
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
During testing it was identified that all council tax accounts examined were updated promptly in the Northgate Council Tax System following any amendments or actions to the account. Documentation was also maintained to support any amendments that had been made to accounts.		Cofely, who administer and process the collection of Council Tax on behalf of the Authority, were issued with a financial penalty for not meeting performance targets in respect of Council Tax collection rates for two consecutive years and collection rates had fallen from 96.9% at 31 March 2013 to 96.4% at 31 March 2015. This had a direct impact on the Council Tax in year collection and the total amount outstanding increased from just over £2.762m to £3.457m over the same period of time. There were also other contributing factors in the increase in Council Tax debt during this period such as Local Council Tax Support replacing Council Tax Benefit in April 2013 and reduced property discounts resulting in a debit increase of £1.9m. During the course of the audit, the Senior Client Manager, Revenues, Benefits and Customer Services had advised Internal Audit that Cofely were to implement an automated recovery module with regard to the collection of Council Tax and extra resources were to be allocated to the Enforcement Team to assist with recovery of Council Tax debt.		Client Management have confirmed that both medium priority recommendations in respect of Cofely's performance and collection rates have been fully implemented. A Rectification Plan has been submitted by Cofely as part of the relief event application to the Authority and in year performance is being tracked and monitoring on a weekly basis. The lower priority recommendation relating to small value write-offs is currently being addressed. <i>Internal Audit selected this service area as part of our sample of evidence checking and was able to confirm that both medium priority recommendations self certified as implemented have been implemented.</i>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Business Continuity	To ascertain whether the systems and procedures in operation for Business Continuity across the organisation are functioning satisfactorily, are in accordance with legislation and the stated priorities within the Council Plan and to provide an opinion to Management on the effectiveness of the system of internal control in place.	Moderate	0	0	3	8
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
In some service areas across the organisation and its partners, Business Continuity Plans (BCPs) were subject to internal challenge and review before being signed off and submitted to the Authority's Resilience Team. This assists the identification of anomalies and helps to ensure consistency between plans.		<p>Some BCPs did not contain up to date contact information, not all BCP Co-ordinators or authors had received business continuity training and not all BCPs were subject to testing routines or responsibility for testing routines was not clearly defined.</p> <p>It is important that plans contain up to date contact information, employees with responsibility for business continuity management are adequately trained and plans are subject to testing routines otherwise there is a risk that services may not be resumed in a timely manner in the event of an incident.</p>		Due to the target dates for implementation of recommendations, it is too early to report on action taken. Recommendations will be followed up in accordance with Internal Audit's agreed processes.			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	National Non-Domestic Rates (NNDR)	To determine whether the procedures in operation for the NNDR system are functioning satisfactorily and are in accordance with legislation and Authority Policy. In particular, to determine compliance with the controls over billing, rateable value amendments and recovery.	Significant	0	0	3	4
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
All NNDR charges had been correctly calculated and the Northgate System was found to be up to date with transactions promptly recorded within the system and debt recovery procedures were correctly applied.		<p>Some users of the Northgate system had access permissions in excess of their business need.</p> <p>During testing of transitional relief and surcharges, explanations of calculations used to determine reliefs to be awarded could not be provided until contact was made with a former Cofely employee.</p> <p>Areas to strengthen the service's ability to detect and inspect organisations which may be demonstrating rates avoidance techniques were identified.</p>		Due to the target dates for implementation of recommendations, it is too early to report on action taken. Recommendations will be followed up in accordance with Internal Audit's agreed processes.			

6 Evidence Checking

6.1 Internal Audit reports issued during the period April to September 2015 included 16 medium priority recommendations. For 6 of these it is too early to report upon action taken but they will be followed up in accordance with Internal Audit's agreed processes. Of the remaining 10, management have provided revised target dates for 3 and 7 have been self certified by management as fully implemented. Those self certified as implemented were all selected for evidence checking.

6.2 Details of those recommendations subject to evidence checking by Internal Audit are detailed in section 5 of this report, above. Summary information regarding the sample of evidence checking undertaken is provided in the table below.

Summary of results of evidence checking by Internal Audit, of medium priority recommendations self certified as implemented by management as at November 2015.

Priority	Total Number of Recommendations Evidence Checked	Number confirmed as Implemented		Number Requiring Additional Action	
		No.	%	No.	%
Critical	0	N/A	N/A	N/A	N/A
High	0	N/A	N/A	N/A	N/A
Medium	7	7	100%	0	0%
Total	7	7	100%	0	0%