

Internal Audit Service

Key Outcomes from Internal Audit Reports Issued Between October 2015 and March 2016

May 2016



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 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 October 2015 to March 2016. 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 (May 2016)

- 3.1 On the basis of Internal Audit work performed and described in this report, the report of the preceding period considered by the Audit Committee in November 2015, 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 eight audit opinions are presented. Of these, six (75%) were 'moderate assurance' opinion classification or higher. No 'critical priority' or 'high priority' recommendations were made.

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. Programme assurance and project boards supported by Internal Audit are 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:

- Information Security Group
- ICT Performance and Prioritisation Board
- Customer Journey and Digital Strategy Delivery Board
- Sundry Debtors System Replacement
- Social Care Case Management System Replacement
- External Print Retender
- Robotic Process Automation
- Petty Cash Process Review
- Cashless Projects
- Troubled Families Stakeholder Group

4.6 Internal Audit has also supported a significant number of special investigations and management requests in this time period. Due to the nature of this work, it is not appropriate to report findings in detail (as this may weaken the control environment) at this juncture. However, key themes arising from this work will be included in Internal Audit's annual report.

IA/AHM/KM/SC
May 2016

5 Main Outcomes – Audit Reports Issued During the Period October 2015 to March 2016

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Environmental Controls and Disaster Recovery (DR)	To determine whether the controls and procedures in place to protect the Authority's computer assets are adequate and operating effectively. To further determine whether, in the event of a disaster or significant event causing major disruption to the Authority's data processing capabilities, disaster recovery / business continuity management plans are in place, which will minimise any disruption to the computer processing of business critical systems.	Moderate	0	0	6	9
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<ul style="list-style-type: none"> Physical access to critical infrastructure is controlled using a door access system. CCTV monitors Quadrant buildings and the Data Centre. Individuals requiring access to rooms housing critical ICT infrastructure must be approved by ICT Management/senior officers. The Data Centre is protected against environmental risks with systems subject to annual maintenance. All business data is replicated off-site to allow the recovery of critical data in the event of a disaster. 		<ul style="list-style-type: none"> There is limited DR infrastructure in place for Windows based business applications. A number of Windows based business applications can be considered critical, for example, loss of the iDox system used by Statutory Services would be critical if the loss occurred during an election period. No formal priority list for the restoration of business applications exists and therefore service areas are unclear as to the limitations of the DR provision and the true impact a DR situation could have on their service if the Quadrant Data Centre was lost. There is no DR resilience for Citrix. Loss of Citrix would prevent remote access to the Authority's Anytime Access solution. 		<p>Internal Audit selected this service area as part of our sample of evidence checking and was able to confirm that one medium priority recommendation has been implemented. Action to address a recommendation relating to a fire risk associated with the proximity of the DR site to the hard-copy archive has been delayed while an alternative fit for purpose DR site is sourced. Recommendations relating to DR resilience for Windows based applications and Citrix are being partly addressed by the wider ICT Strategy that will see a reduction in the dependency on Windows based applications and Citrix facilitated by the replacement of thin-client devices with alternative devices. The remaining medium priority recommendations are being revisited as part of an ICT BCP & DR audit undertaken during 2015/16.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Housing Benefit and Council Tax Support	To determine whether the procedures in operation for the administration of the Local Council Tax Support scheme are operating satisfactorily in accordance with the arrangements agreed by Council. To determine whether the procedures in place for the administration and determination of Housing Benefits are operating satisfactorily, whilst still within the Authority's responsibility; and whether arrangements in place to manage the migration of such benefits under Universal Credit arrangements bear sufficient control.	Significant	0	0	0	0
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<ul style="list-style-type: none"> The Quality Assurance (QA) process uses the Northgate Benefits system to automatically choose a random sample of cases for checking by team leaders. The system is used to record the process from start to finish. Automated sample selection removes any potential bias from the checking procedure. There was a robust control system in place for the annual updating of Northgate Benefits system parameters, which includes independent verification and sign off by the client management team. This includes a checklist of key areas. 		<p>Procedures for administration of Housing Benefit and Council Tax Support claims were operating satisfactorily with good controls in place to ensure the accuracy of claims processed. The parameters of the Northgate Benefits system, through which all claims are processed, are updated annually in accordance with DWP guidance. There were strong QA arrangements for checking the accuracy of claims processed and, where trends or patterns of errors were identified, appropriate training was carried out.</p> <p>At the time of the audit Universal Credit migration had not commenced so it was not possible to test this area, however, the organisation is confident that arrangements are fit for purpose and will be subject to ongoing monitoring for effectiveness.</p>		<p>Not applicable – no recommendations were made.</p> <p>The Authority's client management team manage the performance of the service through monitoring of Key Performance Indicators (KPIs), and the performance payment mechanism of the contract with engie. In respect of KPI 3.1 'average time to process new benefit claims', performance throughout the 2014/15 financial year was sometimes below target. A new process was introduced in November 2014 to improve performance and whilst this initially created a small backlog, there was less impact than in the prior year and a relief event was agreed in February 2015 to allow the service to clear the backlog. As this issue is being addressed Internal Audit did not raise a recommendation.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Public Health Transition	To review systems and procedures in place relating to the transition of Public Health responsibilities and associated funding arrangements. In particular, to determine whether arrangements in place are likely to support the achievement of intended outcomes.	Significant	0	0	6	8
Good Practice Highlighted		Main Issues Identified	Progress Made / Action Taken				
<ul style="list-style-type: none"> Arrangements in place to manage and monitor Public Health budgets are adequate and operating effectively. The Senior Leadership Team (SLT), the Cabinet Member for Finance and Resources and Elected Mayor receive Public Health budgetary reports on a monthly basis, Cabinet and Finance Sub Committee receive these reports every 2 months. General Practitioner (GP) invoices are in the form of a pro forma spreadsheet unique to each GP. Formulae, service costs and available service lines are locked in the spreadsheet so each GP's input is limited to a range of individual services they have delivered in the period as per the contract. 		<p>The most significant issue identified during the audit was service providers submitting claims for payment that were not supported by evidence. This meant service providers were effectively self-certifying their own quality standards against contract requirements. The audit included recommendations that Public Health should schedule a rolling programme of audits, the right to which is included within contracts, to provide assurance that claims for payments and performance data submitted by service providers are accurate, legitimate and supported by evidence.</p>	<p>Five of the six medium priority recommendations have been implemented with the sixth recommendation yet to reach its target date.</p> <p>Monitoring meetings with major external providers are taking place every quarter. The issue of audits is being raised at each of these meetings.</p> <p>Public Health has worked with TyneHealth Ltd, the newly constituted GP Federation in North Tyneside. The purpose of TyneHealth Ltd is to drive up quality and develop a standardised approach across the 29 GP practices in North Tyneside. This includes agreement on audits, annual declaration in relation to clinical governance and quality standards. A similar process has been adopted for pharmacies.</p> <p>Service providers are required to submit annual service reports that include a declaration that services are meeting national clinical and quality standards.</p>				

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	Street Lighting Private Finance Initiative (PFI) Contract / Partnership	To evaluate the application of governance practices in respect of the Street Lighting PFI, to ensure that these are sound, operating as intended, and providing the Authority with sufficient assurance that partnership objectives are being delivered and that the Authority's interests are safeguarded. This audit built on existing assurance arrangements already established within the Authority for the strategic and day to day management of partnership contracts.	Limited	0	0	6	4
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<ul style="list-style-type: none"> Procedures have been established for receiving, investigating and responding to complaints received from the general public. Problems with street lighting can be reported via links on the Authority's www site and a free-phone number to the contractor's service desk. The Authority has identified and implemented a number of energy efficiencies. The Mayflower lighting control system has been implemented across approximately 50% of lighting columns which enhances the Authority's ability to dim and trim or set switch off periods, so increasing opportunities to further reduce energy consumption. 		<p>Monitoring procedures in place for the Street Lighting PFI contract were not effective. There was no access to the contractor's computerised applications by the Authority's officers responsible for monitoring the Street Lighting PFI and no review of the contractor's input, both to challenge performance data provided by the contractor and to reconcile monthly invoices submitted with works undertaken. These issues had been raised previously in the 2006/07 Street Lighting PFI audit report.</p>		<p>Management have confirmed that four of the six medium priority recommendations have been implemented. A revised target date of 31 August 2016 has been agreed for the remaining two medium priority recommendations which involved accessing the contractor's computerised applications to effectively challenge performance data provided by the contractor, and to reconcile monthly invoices submitted with works undertaken. Access to the contractor's computerised applications has been obtained and training in use of the applications was provided to the responsible officers in April 2016. The revised target date for these recommendations is therefore justified.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	Information Governance	To document and assess the Authority's overall arrangements for managing and governing information. To determine whether the controls and procedures in place ensure compliance with all relevant legislation and guidance and are operating effectively.	Limited	0	0	27	24
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<p>The Authority has implemented several ICT systems and controls that individually and collectively aim to safeguard the confidentiality, integrity and availability of information including:</p> <ul style="list-style-type: none"> • An Information Security Policy (ISP) that addresses information governance issues; • The ISP includes guidance and instruction on the use of portable equipment including power-on passwords, firewalls and encryption; • 'Mobile Iron' device management software has been installed on all corporate tablets and mobile phones that can accept the software allowing ICT to remotely wipe lost or stolen devices; and • ICT achieved accreditation to the ISO 27001: 2013 Information Security Management standard in March 2014. 		<p>The Authority's arrangements for managing and governing information have been historically weak. The Authority holds vast volumes of electronically held information but the absence until recently of software tools such as an enterprise wide content/record management system (EDRMS) has reduced the Authority's ability to govern its information effectively. This resulted in multiple breaches of the Data Protection Act (DPA) and a lack of assurance that responses to DPA and Freedom of Information (FoI) requests capture all relevant information. Retention across multiple business applications, and data storage areas, of volumes of personal information and versions of the same information that the Authority has no business need to retain was identified during this and previous audits. This places the Authority in breach of the 4th DPA Principle (data must be accurate and kept up to date) and the 5th DPA Principle (data must not be kept for longer than necessary). However, in addition to compliance issues, weaknesses in the Authority's information governance arrangements affect its ability to make effective decisions if the information those decisions are based on is not assured to be accurate and current.</p>		<p>A Central Information Team (CIT) has been created to strengthen the Authority's information governance arrangements by facilitating a more structured and coordinated approach to information governance and records management. The CIT is based within Law and Governance and incorporates 4 FTE centralised Local Information Managers (LIMs), supported by service area based LIMs and EDRMS super users.</p> <p>Internal Audit selected this service area as part of our sample of evidence checking and was able to confirm that 3 medium priority recommendations had been completed within agreed time scales. The CIT work plan for 2016-17 is focused on addressing the remaining recommendations within agreed timescales.</p> <p>Roll out of EDRMS is now complete across all areas of the organisation and controls are being implemented that will ensure it is being used as intended to improve information governance.</p> <p>The Strategic Information Management Forum (SIMF) which consists of senior managers in the Authority, met on 11/5/2016 to review progress in implementing recommendations. The SIMF will be pivotal in leading Authority wide buy-in to ensure the recommendations are fully implemented.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
6	Social Services System Review	To ascertain whether systems and procedures in operation for the Social Services systems are functioning satisfactorily and are in accordance with legislation and stated priorities within the Council Plan.	Moderate	0	0	2	10
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<p>All users of the Adults Integrated Solution (AIS), Children's Case Management (CCM) and Swift applications must be trained before access to the applications is granted. All training provided is recorded within training registers maintained by the Information Systems Team. Users are provided with thorough training and have access to guidance both in hard-copy and electronic formats.</p>		<p>The two main issues identified during the audit relate to audit logs and the lack of an archiving solution. Audit log functionality has been disabled due to the negative impact on application performance, which means the Information Systems Team no longer have the ability to review user activity in full. Audit logs had been configured to record 'view' access to records, which generates lots of activity and quickly fills up the audit tables. ICT Services' Unix hardware refresh in May 2016 will result in AIS, CCM and Swift being hosted on new hardware infrastructure at which point limited use of the audit logs will be trialled and expanded depending on system performance.</p> <p>Personal data stored within Swift databases has not been electronically archived since its implementation in 2000. Whilst it is acknowledged that retention guidelines for social care data are complex and varied, there is a risk that the Authority may be storing personal data longer than is necessary and in breach of data protection legislation.</p>		<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.</p> <p>A tender exercise for procurement of a replacement social care case management system is currently nearing completion. Internal Audit contributed to the specification of requirements which included archiving and auditing requirements. The implementation plan for the new system will include forward planning for the existing database and the extent to which data should be migrated, archived or deleted.</p>			

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
7	Debt and Non-Cash Income Management	To determine whether there are adequate controls within the system to ensure that all credit income due is invoiced for in accordance with the Authority's policy and legislation. Particular emphasis will be placed upon amendments to accounts and the time taken to raise invoices.	Significant	0	0	3	4
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
There were no specific areas of good practice identified although overall the processes for the administration of the debt and non-cash income management system are operating satisfactorily.		<p>The most significant issues identified included delays in raising debtor accounts, the Customer Accounts Income and Debt Policy being out of date and procedures for collecting school meal income that were in need of review.</p> <p>Currently there are no performance management arrangements relating to the time taken to raise invoices. The Authority's target is for invoices to be raised within ten working days of service/goods provision, however, almost 60% of outstanding invoices at the end of March 2015 were raised outside of the ten day target. Delays in raising invoices are detrimental to the Authority's cash flow and collection rate.</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
8	Pre-Employment Checks	To determine whether sufficient checks are undertaken for individuals prior to the commencement of employment, in accordance with Authority policy and legislation.	Significant	0	0	1	2
Good Practice Highlighted		Main Issues Identified		Progress Made / Action Taken			
<ul style="list-style-type: none"> A new appointment details form has been introduced which is completed by recruiting officers. The form helps to reduce the volume of paperwork previously completed. Employee Services are providing training and guidance documents to recruiting officers on the completion of the form and checks which should be performed. An on-line Disclosure Barring Service (DBS) process has been implemented which enables an applicant to submit a request for a DBS check to be performed. This enables a recruiting officer to access the on-line system and monitor progress of the check. The system has reduced the time taken to process DBS applications and receive results. 		<p>The issues identified all related to record keeping. The most significant issue related to preventing illegal working in the UK in accordance with the Immigration, Asylum and Nationality Act 2006. Checks are being completed, however, evidence to demonstrate the Authority had completed the checks correctly was not always available. Correct completion and maintenance of these records would provide the Authority with a statutory defence from prosecution and/or financial penalty, should it be identified that an employee did not have the right to work in the UK.</p> <p>There has been a delay in completing the Authority's rolling programme of DBS status rechecks, which has resulted in a number of employees not being rechecked within the required time frame. However, this is known to management and measures have been put in place to ensure the checks are renewed in accordance with the Authority's rolling programme.</p>		<p>Management have confirmed that, for the one medium priority recommendation relating to preventing illegal working in the UK, interim measures are in place. However, the target date for implementation was linked to the On-line Recruitment Project and, due to delays in this project, the target for completion has now moved to 30 September 2016.</p>			

6 Evidence Checking

- 6.1 Internal Audit reports issued during the period October 2015 to March 2016 included 51 medium priority recommendations. It is too early to report upon action taken for 30 of these recommendations but they will be followed up in accordance with Internal Audit’s agreed processes. In respect of the remaining 21 recommendations, management have provided revised target dates for 7 and 14 have been self certified by management as fully implemented. All recommendations self certified as implemented were 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 May 2016.

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	14	14	100%	0	0%
Total	14	14	100%	0	0%