Internal Audit Service

Key Outcomes from Internal Audit Reports Issued April to September 2016

November 2016

North Tyneside Council

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 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 (November 2016)

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 2016/17, 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 6 audit opinions are presented. All of these 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. 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:

Cashless Strategy
Customer Journey and Digital Strategy Delivery Board
Information Security Group
ICT Performance and Prioritisation Board
iSupplier
Netcall Bin Reporting System
Public Services Network
Replacement Sundry Debtors system
Replacement Social Care system
Robotic Automation Processes
Troubled Families Stakeholder Group

4.6   Internal Audit has also continued to support a number of special investigations and management requests in this time period.

IA/AHM/KM
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5   Main Outcomes – Audit Reports Issued During the Period April to September 2016

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
1	Rent Assessment and Collection	To determine whether housing rent and service charges are accurately updated to reflect annual changes in rent levels in accordance with Government formula and Council agreement. To examine and evaluate the controls in place within the organisation to mitigate against the risks of reduced income to the Housing Revenue Account from Government plans to reduce social housing rents, and any impact of Welfare Reform on rent collection levels.	**Significant**	0	0	0	0

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
Effective systems and procedures are in operation within the Housing Finance team (ENGIE) when updating rent charges; including running the new rent levels in the Northgate Housing test system prior to running on the live system and sample checking properties, to ensure the new rent levels have been applied correctly.	Based upon the areas tested and sample selected there were no matters arising. Although progress had been made, further work was required to implement new controls and procedures aimed at mitigating a related corporate risk in respect of the Housing Revenue Account Business Plan.	*Not applicable – this audit received a Significant Assurance opinion and no recommendations were made.*

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
2	Payroll	To evaluate the controls within the payroll system designed to prevent and / or detect irregularity or error, and to ensure that payments are made in accordance with the Authority's policy and legislation. Particular emphasis will be placed upon areas of grater risk, such as: • New starters, • Basic pay and variations to pay, and • Leavers	**Significant**	0	0	2	6

Good Practice Highlighted	Main Issues Identified		Progress Made / Action Taken
A number of examples of good practice were identified, including a proactive approach by Employee Services to review and streamline system procedures, the completion of checklists to certify officers within Employee Services had completed the necessary steps within the processes, the production of procedural notes by System Support, Employee Services and Human Resources to provide advice and guidance to staff on how to perform various payroll system tasks.	Two medium priority recommendations were made, relating to: • Ensuring that separate contracts of employment are issued for a specific role, which is casual and temporary in nature and is undertaken by employees who hold substantive roles elsewhere within the Authority. • Standardising overtime and additional hours claim forms in use across the Authority, in order to ensure that one, up to date, set of forms is used corporately.		Management have confirmed that 1 of the medium recommendations has been partially implemented, however, will be fully complete by 30 November 2016 when the respective postholders will next required to be in post. The target date for the implementation of the second medium priority recommendation has not yet been reached. Of the 6 low priority recommendations, 3 have been fully implemented, and the target date for 1 recommendation has not yet been reached. Revised target dates have been set by the service area for the implementation of the 2 remaining low priority recommendations.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
3	Creditors and Procurement	To determine whether there are adequate controls within the creditor payment systems to prevent and / or detect irregularity or error and that payments are made in accordance with Financial regulations and legislation. Particular emphasis will be placed on evaluating controls over: • Ordering, • Receipt of goods and services, and • Payments	**Moderate**	0	0	11	2

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
The main creditor system procedures were found to be operating satisfactorily overall, with controls within the Internet Procurement (IP) system found to be operating well.	Medium priority recommendations were made, relating to: • Ensuring that expenditure incurred on Authority purchase cards is minimised where possible, and the use of corporate contracts maximised. • Maximising expenditure through the corporate Internet Procurement (IP) system and approved suppliers. • Ensuring that procedures for the review and approval of purchase card expenditure by supervisors are strengthened. • Further reducing the number of manual orders raised within the Authority and the identification and management of any orders raised retrospectively. • Ensuring that verification boxes on invoice coding grids for manual purchase orders are not pre-populated with officers' initials. • Producing and reviewing, on a periodic basis, a report to identify potential duplicate creditor payments.	Management have confirmed that 4 of the medium priority recommendations and both low priority recommendations have been fully implemented, with all 7 remaining medium priority recommendations being in the process of being implemented and revised target dates set. *Internal Audit selected this service area for evidence checking and was able to confirm that all 4 medium priority recommendations self certified as implemented have been implemented, and that satisfactory progress is being made towards full implementation of all remaining recommendations.*

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
4	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 the controls over billing, Council Tax banding amendments and recovery.	**Significant**	0	0	0	1

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
All accounts examined were updated promptly in Northgate following any amendments or actions such as valuation listing amendments, refunds and debt recovery. Documentation was also maintained to support any amendments that had been made to accounts.	No major issues were identified – Significant Assurance opinion given and only one low priority recommendation was made.	Management have confirmed that the recommendation has been fully implemented.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
5	School Information Management System (SIMS) Review	To determine whether systems and procedures in operation for SIMS (including the Financial Management System (FMS)) are functioning satisfactorily, are in accordance with legislation and stated priorities within the Council Plan and to provide an opinion to management on the effectiveness of the system of financial control in place.	**Significant**	0	0	4	5

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
The audit log within FMS is comprehensive, recording every transaction and the user responsible. The logs are very easy to understand and clearly display the before and after values of records within the system. The SIMS Support Team has developed an intranet page which all schools have access to. The site provides schools with various resources, including 'hot topics', training / user guides and solutions to common issues. Discussions with schools indicated that this was a useful resource.	Four medium priority recommendations were made, relating to: • Ensuring that, following a school's decision to opt out of the North Tyneside Learning Platform (NTLP) element of the Education ICT service level agreement, the interface to the organisation contracted to manage access to the NTLP is disabled in a timely manner to prevent further employee and pupil data from being unnecessarily exported. • Providing appropriate support and advice to schools, to help ensure that user permissions are periodically reviewed in order that user access remains appropriate. • Reviewing the access permissions assigned to officers from the Schools' Business Finance team, to ensure that access is commensurate with business need. • The SIMS Support Team liaising with schools to establish and implement retention guidelines for data stored with SIMS, in order to help ensure compliance with data protection legislation.	Management have confirmed that 3 medium priority recommendations and all 5 low priority recommendations have been implemented, with a revised target date set for the implementation of 1 medium priority recommendation. *Internal Audit selected this service area for evidence checking and was able to confirm that all 3 medium priority recommendations self certified as implemented have been implemented.*

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
6	Budget Monitoring and Control Arrangements	To ascertain whether income and expenditure is adequately planned, controlled, monitored and reported. To assess whether budget monitoring systems are functioning satisfactorily and consistently across the organisation's service areas. To assess whether the respective roles within this aspect of the organisation's performance management arrangements are understood and reflected appropriately in the Council's governance arrangements, including published guidance.	**Significant**	0	0	1	8

Good Practice Highlighted	Main Issues Identified		Progress Made / Action Taken
The Investment Programme Board (IPB) provides additional governance and control over capital expenditure, through scrutiny of all capital projects from inception and performance monitoring through to completion. Scrutiny of projects at initiation ensures capital expenditure is aligned with the Authority's strategic plans.	Three issues were identified during the audit, which were minor in isolation and were each in the process of being investigated and resolved by the relevant officers. A related recommendation was made, in respect of the introduction of a periodic Financial Regulations health check, to assess compliance with the Authority's Financial Regulations and provide evidence that financial control is strong and / or identify any areas for improvement. A procurement exercise was planned to take place for the implementation of a dashboard style reporting tool, which will help reduce the current resource intensive budget monitoring and reporting process, and contribute to the self-service aspirations of the Authority's Target Operating Model.		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 2016 included 18 medium priority recommendations. For 2 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 16, management have provided revised target dates for 9, and 7 recommendations 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 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	7	7	100%	0	0%
Total	7	7	100%	0	0%