Audit Committee

North Tyneside Council

21 May 2019

Wednesday 29 May 2019 Room 0.01, Quadrant East, The Silverlink North, Cobalt Business Park, North Tyneside commencing at 6.00pm.

Agenda Item		Page

1. **Apologies for Absence**

   To receive apologies for absence from the meeting.

2. **Declarations of Interest and Dispensations**

   You are invited to declare any registerable or non-registerable interests in matters appearing on the agenda, and the nature of that interest. You are also invited to disclose any dispensation in relation to any registerable or non-registerable interests that have been granted in respect of any matters appearing on the agenda.

   You are also requested to complete the Declarations of Interests card available at the meeting and return it to the Democratic Support Officer before leaving the meeting.

3. **Minutes**

   To confirm the minutes of the meeting held on 27 March 2019.

Members of the public are welcome to attend this meeting and receive information about it.

North Tyneside Council wants to make it easier for you to get hold of the information you need. We are able to provide our documents in alternative formats including Braille, audiotape, large print and alternative languages.

For further information about this meeting please call 0191 643 5316.

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4. **Summary of the 2018/19 Accounts**

   To receive a presentation which sets out the current position in relation to the closedown of the Authority's accounts.

5. **Annual Governance Statement Update** (to follow)

   To give consideration to a report which advises the Committee of the outcome of the review of the Authority's systems of internal control as presented in the Annual Governance Statement which will assist it to consider the effectiveness of the Authority's arrangements for the governance of its affairs, including arrangements for management of risks and systems for internal control.

6. **External Audit Progress Report**

   To give consideration to a report which provides an update on progress made in relation to the audit of the Authority to date.

7. **Strategic Audit Plan 2018/19 – Final Monitoring Statement**

   To give consideration to a report which provides the Committee with a final monitoring statement in respect of the 2018/19 Strategic Audit Plan.

8. **Key Outcomes from Internal Audit reports issued between November 2018 and April 2019**

   To give consideration to a report which advised the Committee of the key outcomes from Internal Audit reports issued between November 2018 and April 2019.

9. **2018/19 Opinion on the Framework of Governance, Risk Management and Control**

   To give consideration to a report which sets out the Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, in accordance with the Public Sector Internal Audit Standards.

10. **Exclusion Resolution**

    The Committee will be requested to pass the following resolution: Resolved that under Section 100A (4) of the Local Government Act 1972 (as amended) and having applied a public interest test as defined in Part 2 of Schedule 12A of the Act, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Act.

11.   **Corporate Risk Management Summary**

To consider a report which sets out the corporate risk which have been identified for monitoring and management by the Authority's Senior Leadership Team

Members of the Audit Committee:-
Mr K Robinson (Chair)
Mr M Wilkinson (Deputy Chair)

Councillor D Cox
Councillor N Craven
Councillor A McMullen
Councillor J Mole
Councillor M Rankin
Councillor P Richardson
Councillor J Wallace

Audit Committee

27 March 2019

Present: Mr M Wilkinson (Chair)
Councillors D Cox, N Craven, S Graham, J Harrison, A McMullen, J Mole and J Wallace.

AC30/03/19 Apologies

An apology for absence was submitted on behalf of the chair, Mr K Robinson.

AC31/03/19 Substitute Members

There were no substitute members reported.

AC32/03/19 Declarations of Interest and Dispensations

Councillor S Graham declared a non-registerable personal interest in the following item as a family member was an employee of EY:

- Audit Planning Report.

AC33/03/19 Minutes

Resolved that the minutes of the meeting held on the 21 November 2018 be confirmed as a correct record and signed by the Chair.

AC34/03/19 Results of Certification Works 2017/18 - Mazars

The Committee was presented with a letter which provided the results of the certification works carried out during 2017/18 by Mazars, the Authority's external auditors. It was explained that the only return during 2017/18 related to the Housing Benefit subsidy. This return had been subject to an amendment and a qualification letter.

It was explained that during the testing process an error had been identified in one case where the state retirement pension had not been taken into account, following a change in circumstances, which had meant that the claimant was no longer entitled to full housing benefit. The Authority had identified where a similar situation had arisen and had corrected the error. It was explained that the matter had been included within the observations section of the qualification letter as the amendments had already been made within the housing benefits system.

The letter also set out the fees charged for providing this service.

Resolved that (1) the report be noted; and
(2) The Committee's thanks be forwarded to Mazars for their work on behalf of the Authority and the Committee.

AC35/03/19 Audit Planning Report

Consideration was given to a report which provided an update on the changes made in relation to the provision of an external audit service for the Authority. The report covered an overview of the 2018/19 audit strategy and identified a number of new risks which required consideration including whether there was a need to produce group accounts as a result of increased activity in the Authorities subsidiaries, the impact of the implementation of new accounting standards and financial sustainability. The report also advised the Committee that EY would be carrying out works to gain assurance that the opening balances were free from misstatement as this was the first year that they had carried out the Authority's external audit. It was also explained that further reports would be submitted on any audit differences of sums greater than the specified £0.29M where they warranted the attention of the Committee.

The report also set out the significant risks which had been identified for the current year's audit, the reason why the risks had been identified and the expected approach to the audit of those risks. It was noted that the risks identified in the report could change as a result of significant findings or subsequent issues being identified.

It was explained that the external auditors were required to consider whether the Authority has put in place proper arrangements to secure the economy, efficiency and effectiveness of its resources. Details of how EY would consider this were outlined.

The report also set out the timeline for the completion of the audit, the team which would be delivering the audit and how EY would make use of specialists in carrying out its work for the Authority including in relation to valuation of land and buildings, pensions and Private Finance Initiatives (PFI's).

Clarification was sought in relation to when it was likely that a decision would be made on the need for a group financial statement to be prepared. It was explained that EY were in discussions with the Authority and once a decision had been reached a report would be presented to the Committee.

Reference was made to the recent bad press that external audit firms had been subjected to and clarification was sought on how the Committee could be reassured.   It was explained that there was an expectation that there would be changes to the audit sector in the near future. In respect of North Tyneside it was explained that quality monitoring had been included in the tender process and that EY had a team in place which understood the local government sector and it had a critical mass on the ground. Reference was also made to the transparency report which would be circulated to members

Resolved that the report be noted

AC36/03/19 Annual Statement of Accounts 2018/19

Consideration was given to a report which provided an update on the preparation of the 2018/19 annual statement of accounts. It was explained that detailed guidance notes had been published to remind officers of the deadlines and to provide advice on where to raise any concerns.

It was also explained that the team was working closely with the new External Auditors to understand their approach to the audit of the Authority's accounts and to understand their working paper requirements.

Reference was also made to the assessment of whether there was a need for group accounts to be prepared in relation to the trading company for 2018/19. It was also explained that regular meetings with Valuation had been carried out due to the high value of the assets and the changes in valuation techniques, especially in relation to the Authority's schools.

Resolved that the work in respect of the closure of the 2018/19 accounts be noted

AC37/03/19 Accounting Policies

Consideration was given to a report which set out the accounting policies to be used in the compilation of the annual statement of accounts. It was explained that in the annual Audit Committee statement of accounts the Authority was required to disclose how the accounting statements had been prepared. The accounting policies explained the basis for the recognition, measurement and disclosure of transactions in the accounts.

It was explained that changes to the accounting policies would only be made if the change was required by the Code of Practice on Local Authority Accounting in the UK or it would result in the statements providing more reliable or relevant financial information.

Details of the proposed changes and the reasons for the changes were set out.

Resolved that the Accounting Policies to be adopted by the Authority and used to compile the Annual Statement of Accounts for the financial year 1 April 2018 to 31 March 2019 be endorsed.

AC38/03/19 Proposed Audit Committee Work Programme 2019/20

Consideration was given to a report which set out a proposed programme of core business to be considered by the Committee during 2019/20 to ensure that it was able to discharge its duties effectively and efficiently. It was noted that there were a number of items which had to be dealt with at a specific time during the financial year whilst others could be considered as and when required.

Month	Item of Business
May 2019	Internal Audit and Risk Management • Annual Report from Chief Internal Auditor and Opinion on the Framework of Governance, Risk Management and Control • Final Outturn Report (showing performance in achieving the previous year's Strategic Audit Plan) • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations) • Risk Management Update Finance • Draft Annual Governance Statement (and supporting information) External Audit

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	• External Audit Progress Report • External Audit Fee Letter (including Terms of Engagement)

July 2019	External Audit
	   • Audit Completion Report (annual governance report)
	
	Internal Audit and Risk Management
	   • Annual Review of Audit Committee Effectiveness

November 2019	Internal Audit and Risk Management
	   • Interim Outturn Report (showing profiled performance against the Strategic Audit Plan)
	   • Key Outcomes from Internal Audit Reports (reporting the key outcomes of reports issued in the preceding six months and progress made with the implementation of audit recommendations)
	   • Risk Management Update
	
	Finance
	   • Annual Governance Statement Update (progress on previously identified actions and agreeing methodology for coming year)
	   • Report on preparation of Annual Statement of Accounts 2019/20
	
	External Audit
	   • Annual Audit Letter
	   • Grants Report
	   • External Audit Progress Report

March 2020	Internal Audit and Risk Management
	   • Strategic Audit Plan (for the forthcoming financial year)
	
	   • Annual Audit Committee Work Programme
	
	Finance
	   • Report on accounting policies to be used in Compilation of Annual Statement of Accounts
	   • Report on preparation of Annual Statement of Accounts 2019/20
	
	External Audit
	   • Audit Strategy Memorandum (audit plan)

It was noted that the above list was not exhaustive and items could be added to or removed from the list as business dictated.

Reference was made to the proposals for the annual review of the effectiveness of the Committee which was scheduled to be reported to the Committee at its July meeting. It was suggested that it might be helpful for a system to be put in place which would allow members to privately feed their views on the effectiveness of the Committee to the external auditors in advance of the July meeting. It was also suggested that further information be provided to members on the suggested process.

Resolved that (1) the proposed core business work programme for 2019/20 be agreed;
(2) it be noted that it may be necessary to change or adapt the proposed reports to be considered by the Committee to ensure optimum timing of consideration of governance issues and to respond to emerging trends during the year;
(3) it be noted that additional reports may be received on ad-hoc items of business which arose during the course of the year;
(4) a background report be presented on the annual review of the effectiveness of the Committee to progress to the July meeting

AC39/03/19 Strategic Audit Plan 2019/20

Consideration was given to a report which outlined the planned work of the internal audit section over 2019/20. It was explained that internal audit had carried out an assurance mapping exercise of the key risks facing the authority.

It was explained that the Strategic Audit Plan outlined the approach taken to risk management and audit planning, the respective roles of management and internal audit in relation to internal controls, the relationship between internal and external audit and the quality standards that would be applied in the delivery of the Plan. The Plan also covered the resourcing of the internal audit team. It was also noted that the Strategic Audit Plan had been prepared in consultation with the Chief Executive, the Head of Resources and all other Heads of Service.

The Committee was advised that the Plan would be kept under review throughout the year and a half year progress update was scheduled to be presented to the November meeting of the Committee along with a full outturn report in May 2020.

Reference was made to the number of audit days available within North Tyneside. It was explained that 60% of the days were committed which allowed for a measure of flexibility across the two audit teams where it was required.

Resolved that the Strategic Audit Plan 2019/20 be approved.

North Tyneside Council
Report to Audit Committee
Date: 29 May 2019

Report from Service Area: Resources

Report Author: **Allison Mitchell, Chief Internal Auditor**   **(Tel: 643 5720)**

Wards affected: **All**

PART 1

1.1   Purpose:

The purpose of this report is to provide the Audit Committee with a final monitoring statement in respect of the Strategic Audit Plan for 2018/19 (this document is attached as **Appendix A**).

1.2   Recommendation:

It is recommended that the Audit Committee considers and notes the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as **Appendix A**.

1.3   Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4   Information

Strategic Audit Plan 2018/19: Final Monitoring Statement

1.4.1 The Strategic Audit Plan for 2018/19 was presented to and approved by the Audit Committee at its meeting in March 2018. The Strategic Audit Plan helps to ensure that Internal Audit is able to meet its aims as an independent assurance function for the Authority and sets out Internal Audit's objectives (based on an assessment of risks and opportunities for the organisation).

1.4.2 The Strategic Audit Plan is supplemented with a detailed Annual Audit Plan, which sets out the key objectives for the audit reviews identified to take place during 2018/19. An interim monitoring statement was presented to the Audit Committee in November 2018 and it was agreed that a final outturn statement would be presented to the Audit Committee in May 2019, demonstrating performance against the Plan. A final monitoring statement, outlining progress against the Audit Plan for 2018/19, is attached as **Appendix A**. It takes each audit review area and associated key objectives, as agreed by Audit Committee, and notes the progress achieved.

1.4.3   During 2018/19, 45 audit assignments were programmed. 1 assignment was not required during 2018/19. By April 2019, 36 assignments (82%) were either complete or underway. Those audits not yet commenced have been risk assessed as part of Internal Audit's continuing rolling programme and the majority have been included in the Strategic Audit Plan during 2019/20.

1.4.4   This variation in the original planned coverage has occurred due to the deployment of a Senior Auditor on a non-audit role for part of the year (in Procurement); and some difficulties in recruiting to new posts established within the wider shared Internal Audit and Risk Management service.

1.5   Decision Options:

It is recommended that the Audit Committee notes the information set out in the Strategic Audit Plan Final Monitoring Statement, attached as **Appendix A**.

There are no other options available in relation to this report.

1.6   Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7   Appendices:

Appendix A: Strategic Audit Plan 2018/19: Final Monitoring Statement

1.8   Contact officers:

Kevin McDonald (Group Assurance Manager) Tel: 643 5738

1.9   Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

   (a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance and Accountancy / Institute of Internal Auditors, April 2017 (P) Public Sector Internal Audit Standards
   (b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019 (P)
   (c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) http://november.northtyneside.gov.uk:7777/pls/portal30/NTC_PSCM.PSCM_Web.download?p_ID=515604
   (d) Strategic Audit Plan 2018/19, March 2018 (P) https://my.northtyneside.gov.uk/sites/default/files/meeting/agenda/Audit%20Committee%2028%20March%202018.pdf
   (e) Corporate Strategic, Service Strategic and Operational Risk Registers (C)
   (f) The Accounts and Audit Regulations 2015, April 2015 (P) http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1   Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2   Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards and related Local Government Application Note require that the Chief Internal Auditor should report periodically to senior management and the board on Internal Audit matters, including "performance relating to its plan".

2.3   Consultation/community engagement

The Strategic Audit Plan 2018/19 was prepared following consultation with: the Chief Executive; Deputy Chief Executive; Head of Resources (Chief Finance Officer); all Heads of Service and Cabinet Member for Finance and Resources.

2.4   Human rights

There are no human rights issues arising from this report.

2.5   Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6   Risk management

The risks associated with this report have been considered and discussed with the Senior Risk Advisor and will be managed in accordance with the North Tyneside Council risk process.

2.7   Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8   Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report author   Allison Mitchell
                      Kevin McDonald

Internal Audit Service

Strategic Audit Plan 2018/19: Final Monitoring Statement

May 2019

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Annual Audit Plan 2018/19 - Outturn

<u>Advice & Programme Assurance</u>

Heading	Auditable Area	Description / Audit Objectives	Outturn
Advice, Contingencies & Assurance	• Advice & Guidance • Contingencies & Work Requests • Fraud & Special Investigations	Responding to ad-hoc queries and requests for advice; responding to requests for one-off audit assignments, where it is considered that audit involvement is necessary; responding to allegations of fraud (*see also proactive anti-fraud work in counter fraud & internal control and probity section below*); project assurance and assuring appropriate consideration has been given to internal control & governance issues when new systems are introduced.	**Complete** – continues into 2019/20.
Programme Assurance	• New Systems / Methods of Service Delivery	Internal Audit will add value by providing assurance on aspects of the approach and work undertaken, and assessing the robustness of arrangements for benefits realisation. The systems, programmes and new initiatives to be supported will include providing assurance to the Senior Leadership Team on the Creating a Brighter Future programme.	**Complete** – continues into 2019/20. Project Boards / Working Groups supported by Internal Audit include: • Construction Group Insourcing • Information Security Working Group • Office 365 & SharePoint (collaborative tooling solution) • Social Care IT Transformation (SCITT) Board

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Progress Update
Corporate and Cross Cutting	• Pre-Submission Review of Grant Claims	To undertake grant claim certification in respect of external funding regimes on behalf of the Council, to ensure that grant funding requirements have been met and grant claims are submitted in accordance with grant conditions, to maximise available grant income.	**Complete**. During 2018/19 grant claim certifications totalled £6.263m and included: • Troubled Families (£0.308m) • Carbon Reduction Commitment Energy Efficiency Scheme (£0.249m) • Local Transport Plan (£3.66m) • Disabled Facilities Grant (£0.129m) • Cobalt Cycle Scheme (£0.084m) • Growth Hub Funding for NECA / LEP (£0.416m) • NTC SCITT Grant (£0.022m) • A191 Corridor Local Growth Fund (£1.395m)
	• Annual Opinion	An annual opinion on the 'adequacy and effectiveness of the framework of governance, risk management and control' will be drafted and presented to the Chief Executive, Head of Resources (Section 151 Officer), Senior Leadership Team and Audit Committee, outlining the audit work performed during the year and summarising key themes. This will be timed to support production of the Council's Annual Governance Statement.	**Complete** – Report to Audit Committee May 2019.
	• Follow up on Recommendations	Monitoring the implementation of Internal Audit recommendations, in consultation with the service areas which have received these recommendations. During the year, Internal Audit will review the process benefitting from shared learning within the Internal Audit and Risk Management Service and against best practice to ensure recommendations are followed up and reported upon to Audit Committee in a timely, efficient and effective manner.	**Complete** – continues into 2019/20. A dedicated review will be undertaken during 2019/20 regarding the process of following up recommendations. This work will be undertaken as part of the audit service Quality Assurance and Improvement Programme.

Audit and Assurance – Corporate and Cross Cutting

Heading	Auditable Area	Description / Audit Objectives	Outturn
Corporate and Cross Cutting	• Governance and value for Money Reviews	To review whether appropriate internal controls exist within a sample of significant business arrangements within North Tyneside Council. Where it is possible to assess the economy, efficiency and effectiveness of specific aspects of these arrangements, this will also be undertaken. Areas to be reviewed under this heading in 2018/19 include: • Ethical Governance (including controls regarding declarations of interest, and acceptance of offers of gifts and hospitality by both officers and elected members) • Construction Partner in-sourcing • Corporate Health and Safety • Direct Payments (and financial aspects of care provision) • Risk Management arrangements • Treasury Management arrangements • Section 106 / Section 278 Arrangements • Use of Waivers in procurement • Exploring the use of technology-based audit techniques (for example, in income maximisation)	**Prior Year Work Completed: Business Continuity Management** (Significant Assurance – 2 medium & 10 low priority recommendations). **Underway** **Complete** (project assurance role) **Underway** Review of Deprivation of Liberty processes **underway** **Deferred to 2019/20** **Deferred to 2019/20** **Deferred to 2019/20** **Audit coverage in these areas will be included within other work to be included within the Internal Audit Plan.**

Audit and Assurance – Service Area Specific

Heading	Auditable Area	Description / Audit Objectives	Outturn
Children, Young People and Learning	• Primary & First Schools, Middle Schools and Secondary Schools	To assess, on a thematic basis, the application of controls associated with the discharge of responsibilities relating to delegated school budgets, within a sample of schools on a risk assessed basis.	**Deferred to 2019/20**
	• Schools' Financial Value Standard (SFVS)	On behalf of the Head of Resources (Section 151 Officer), Internal Audit will co-ordinate Schools' Financial Value Standard submissions, for all of the Council's grant-maintained schools, and provide assurance to the Section 151 Officer relating to her annual report to the Department for Education.	**Complete** – Work undertaken by Internal Audit ensured that all schools were able to submit their assessments by the statutory deadline of 31 March 2019. Annual return was submitted to Department for Education by the required deadline.
Tyne Port Health Authority	• Tyne Port Health Authority	On behalf of North Tyneside Council, as the Accountable Body for the administration of Tyne Port Health Authority, to undertake the internal audit requirements associated with the annual Small Bodies Return for this entity. This will involve acting independently and on the basis of an assessment of risk, performing a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2018. To determine an appropriate level of internal audit coverage in accordance with the body's needs, and on the basis of findings in the areas examined to summarise conclusions and report these in an appropriate form to the body.	**Complete**.

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Outturn
ICT	• System Reviews	To determine whether the systems and procedures in operation are functioning satisfactorily and are in accordance with legislation and council policy. In particular, to determine whether: • The systems comply with good practice and all legal, statutory and regulatory body requirements, and meet business need; • All transactions are completely and accurately recorded and traceable; • Access to information and facilities is controlled and restricted to authorised users according to their needs; • The potential for fraud and error are minimised; • The systems are effectively administered and supported; • All staff using the systems have been correctly trained to the level that will allow them to properly fulfil their duties; • The systems are continually available during working hours; • The systems provide complete and accurate management information; and • Upgrades to the systems are properly resourced and managed to meet clearly stated and agreed business objectives. For 2018/19, specific ICT audit coverage will be prioritised in the following areas: • Telephony (mobile and landline) • Payment Card Industry Data Security Standards (PCIDSS) Compliance • Network Management • Debtors (Ash) System Review • Office 365 & SharePoint • Liquid Logic System Review • Implementation of General Data Protection Regulation	**Work Completed:** • **Telephony** (Limited Assurance – 4 medium & 25 low priority recommendations). • **PCI DSS** (Limited Assurance – 4 medium and 4 low priority recommendations). • **Debtors (Ash) System** (Limited Assurance – 4 medium and 9 low priority recommendations). • **Liquid Logic System** - completed in addition to review of ContrOCC System. (Limited Assurance – 13 medium and 18 low priority recommendations). **Underway:** • Network Management • Implementation of General Data Protection Regulation **Deferred to 2019/20:** • **Office 365 & SharePoint**. Not yet implemented and our programme assurance work in this area has therefore continued during 2018/19.

Audit and Assurance – ICT

Heading	Auditable Area	Description / Audit Objectives	Outturn
ICT	• Public Service Network (PSN) Compliance	To undertake the annual independent review of the Authority's compliance with the Public Service Network Code of Connection, to support the Authority's submission to the Public Services Network Authority for accreditation.	The Authority was accredited with PSN Compliance in July 2018 and therefore no further Internal Audit assurance is required until 2019/20.

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Outturn
Counter Fraud	• Pro-active anti-fraud work	To undertake pro-active anti-fraud and corruption work (including participation in the Cabinet Office's National Fraud Initiative and performing internal data matching exercises); and to raise the awareness of counter fraud and corruption measures across the organisation.	**Complete** – continues into 2019/20.

Counter Fraud and Internal Control & Probity

Heading	Auditable Area	Description / Audit Objectives	Outturn
Internal Control & Probity	• Core Financial Systems: - Business Rates; - Council Tax; - Payroll; - Creditor Payments; - Cash and Bank; - Debt and Income Management; - Housing Rent Assessment & Collection; Housing & Council Tax Benefit	The core financial systems encompass the main ways in which the Authority either pays money out (Creditor Payments, Payroll, Housing & Council Tax Benefit) or receives monies in (Business Rates, Council Tax, Debt and Income Management, Rent Assessment and Collection). Each of these areas will be given some audit coverage in each financial year, but on a cyclical basis a more detailed review will be undertaken on one income system and one expenditure system each year. For 2018/19, those systems prioritised for an in-depth review are: • Creditor Payments (including Accounts Payable, Purchase Card transactions, other payment means e.g. CHAPS, and Petty Cash) • Debt and Income Management (including whether agreed pricing schedules are in existence, whether pre-payment methods of income collection are optimised, whether debts are invoiced promptly, write off and recovery procedures are appropriate and sufficient to deter debts from becoming 'bad').	The following 2017/18 work was completed during the year: • **Council Tax** (Significant Assurance – 2 medium and 1 low priority recommendations). • **Creditors** (Significant Assurance – 2 medium priority recommendations) • **Cash & Bank** (Significant Assurance – 1 low priority recommendation) • **Payroll** (Significant Assurance – 9 low priority recommendations). • **Rent Assessment & Collection** (Full Assurance – no recommendations). 2018/19 work is at the following stages of completion: • Business Rates – **underway** • Council Tax – **complete** (Significant Assurance – 2 low priority recommendations) • Payroll – **underway** • Creditors – **underway** • Cash & Bank – being undertaken during quarter 1 2019/20 • Debt & Income Management – **underway** • Rent Assessment & Collection – **complete** • Benefits – being undertaken during quarter 1 2019/20

North Tyneside Council Report to Audit Committee Date: 29 May 2019	**ITEM 8** Title: Key Outcomes from Internal Audit reports Issued between November 2018 and April 2019

Report from Service Area:	**Resources**	
Report Author:	**Allison Mitchell, Chief Internal Auditor**	**(Tel: 643 5720)**
Wards affected:	**All**	

PART 1

1.1 Purpose:

The purpose of this report is to advise the Audit Committee of key outcomes from Internal Audit reports issued between November 2018 and April 2019 (**Appendix A**).

1.2 Recommendation(s):

It is recommended that the Audit Committee:

(a) considers the key findings from, good practice identified in, and management action taken in response to the Internal Audit reports issued, attached as **Appendix A**; and

(b) notes the Chief Internal Auditor's opinion that, based on the outcomes from this work, the framework of governance, risk management and control is satisfactory overall.

1.3 Council plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4 Information

Key Outcomes from Internal Audit Reports Issued Between November 2018 and April 2019

1.4.1 It is important that the Audit Committee receives regular updates on the key outcomes arising from Internal Audit's planned work. This is also emphasised in the Public Sector Internal Audit Standards (PSIAS), which state that "in addition to the annual report [*reported to the Audit Committee each May*], the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report".

1.4.2 The Terms of Reference for the Audit Committee state that it will consider the effectiveness of the Authority's control environment; and the Chief Internal Auditor's report and opinion in this regard. Reporting of key findings from Internal Audit reports issued at regular intervals allows the Audit Committee to be made aware of the Authority's governance arrangements on a timely basis during the year. It also enables the Audit Committee to develop an on-going awareness of the soundness of the framework of governance, risk management and control, to support the Chief Internal Auditor's annual report on this matter.

1.4.3 A summary of key outcomes from planned Internal Audit reports issued between November 2018 and April 2019, including areas of good practice identified and action taken to date by management in response to each audit, is attached as **Appendix A**. Based on the outcomes from audits issued to date, and management action undertaken in response to these, the Authority's framework of governance, risk management and control is considered to be satisfactory overall (which is a positive outcome for our organisation).

1.4.4 Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work are included in Internal Audit's annual report.

1.5 Decision Options:

It is recommended that the Audit Committee considers the summary of Internal Audit reports issued, attached as **Appendix A**, and the consequent evaluation of the Authority's framework of governance, risk management and control as satisfactory overall.

There are no other options available in relation to this report.

1.6 Reasons for recommended option:

This recommendation will allow the Authority to operate in line with legislation, good practice and professional guidance.

1.7 Appendices:

Appendix A: Key Outcomes from Internal Audit Reports Issued Between November 2018 and April 2019

1.8 Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738
Steven Close (Senior Auditor) Tel 643 5734

1.9   Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a)   Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, March 2017 (P) PSIAS March 2017
(b)   Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, February 2019 (P)
(c)   Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) Financial Regulations
(d)   Strategic Audit Plans 2017/18 and 2018/19, March 2017 and 2018 (P)
      Strategic Audit Plan 2017-18 Appendix A
      Strategic Audit Plan 2018-19 Appendix A
(e)   Internal Audit Reports & Briefing Notes prepared during 2017/18 (C)
(f)   Corporate Strategic, Service Strategic and Operational Risk Registers (C)
(g)   The Accounts and Audit Regulations 2015, April 2015 (P)
      The Accounts and Audit Regulations 2015

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1   Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2   Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The guidance accompanying the legislation states that 'proper practices in relation to internal control' are those contained within the Public Sector Internal Audit Standards. The Public Sector Internal Audit Standards require that the Chief Internal Auditor should make arrangements for interim reporting to the organisation in the course of the year.

2.3   Consultation/community engagement

All Internal Audit reviews were shared with and reported to the relevant audit client upon conclusion of each audit assignment, with actions agreed by management. Management comments on the summary of key outcomes from Internal Audit reports have been included in the report.

2.4   Human rights

There are no human rights issues arising from this report.

2.5   Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6   Risk management

Risks have been considered and there are no risks identified directly arising from this report.

2.7   Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8   Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors   Allison Mitchell
Kevin McDonald
Steven Close

Internal Audit Service

Key Outcomes from Internal Audit Reports Issued Between November 2018 and April 2019

May 2019

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 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 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 November 2018 to April 2019. 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.

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 on-going 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 2019)

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 2018, and work performed from the approved Strategic Audit Plan for 2018/19, 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 five audit opinions are presented. Of these one (20%) was 'full assurance', two (40%) were 'significant assurance' and two (40%) were 'limited assurance' opinion classification. 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. 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	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 (or have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

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 Working Group
- Social Care IT Transformation (SCITT) Board
- Office 365 & SharePoint (collaborative tooling solution)
- Construction Group Insourcing

4.6   Internal Audit has also supported a number of special investigations and management requests in this time period. Key themes arising from this work will be included in Internal Audit's annual report.

IA/AHM/KM/SC
May 2019

5   Main Outcomes – Audit Reports Issued During the Period November 2018 to April 2019

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	High	Medium	Low
1	Council Tax	To determine whether the systems and procedures in operation for Council Tax collection are functioning satisfactorily, are in accordance with legislation and the stated priorities within the Council Plan.	**Significant**	0	0	0	2

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
• Audit testing identified that, for the accounts examined, the Council Tax system was updated fully and promptly following any amendments or actions such as valuation listing amendments, refunds and debt recovery.	• The Council Tax refund reconciliation spreadsheet for 2018/19 displayed several anomalies where a refund cancelled in General Ledger had not been cancelled in the Council Tax system. In one example an anomaly identified in May 2018 was still unresolved at the end of January 2019. • In order for the Council Tax Service to award the Leaving Care discount, they must be provided with supporting evidence in the form of an email from the Authority's Leaving Care Team (forwarded on from the Client/Senior Client for Revenues, Benefits and Customer Services). In both cases sampled during the audit, evidence of the email could not be identified in the Information@Work system.	Revenues management have self-certified both recommendations as complete. Guidance has been issued to all relevant staff reminding them of the need to consistently apply documented working practices.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
2	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 Policy. • To examine and evaluate the controls in place within the organisation to mitigate against the risks of reduced income to the Housing Revenue Account (HRA) from government plans to reduce social housing rents, and any impact of Welfare Reform on rent collection levels.	**Full**	0	0	0	1

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
There are effective practices in place with all Housing rents, service charges and garage rents subject to satisfactory modelling, reconciliation and checking for accuracy prior to being added to the live Northgate system.	The audit identified no significant issues. The one low priority recommendation raised in the audit referred to the draft Financial Inclusion Strategy that needs to be finalised and published.	The target date for the one low priority recommendation raised in the audit has not been reached.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
3	Cash and Non-Credit Income	• To determine whether there are adequate controls within income collection and reconciliation procedures to prevent and/or detect irregularity or error and that transactions are processed in accordance with Council policy, Financial Regulations, legislation and the requirements of external bodies such as HM Revenues and Customs. • The audit concentrated on a high level review of the central controls in place for income management with no site visits or sample testing undertaken. A range of systems' intelligence was reviewed to assess how well the system was achieving its objectives and overall desired outcomes, safeguarding the interests of the Authority and achieving value for money.	**Significant**	0	0	0	1

Good Practice Highlighted	**Main Issues Identified**	**Progress Made / Action Taken**
Staff from the relevant service areas involved in the audit demonstrated a good understanding of the relevant procedures and the necessity of internal controls and showed a willingness to address any weaknesses identified or suggestions of good practice offered.	At the time of the audit there was no single point of contact for income management within the Authority's Client Management Team.	The recommendation has been self-certified as complete. The Head of Resources has determined that the Senior Client Manager for Revenues, Benefits and Customer Services will be the single point of contact for the Authority.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
4	ASH Debtors System Review	To determine whether the systems and procedures in operation for the Debtors systems are functioning satisfactorily and are in accordance with legislation and Council policy.	**Limited**	0	0	4	9

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
- All system changes within ASH are recorded within their respective audit logs. Audit logs are user friendly both on screen and in hard copy. - Several rounds of in-depth UAT were completed before the system was implemented. - ICT and Revenues and Benefits teams undertook in-depth testing of all new functionality in the test system before implementing in the live environment. - Several rounds of training were carried out by internal and external trainers, training length and content varied based on users' roles.	- There is an on-going issue with the reconciliation of totals between ASH Debtors and General Ledger. - There is a clear button assigned to the Audit log and system maintenance logs which would allow users to clear the audit logs for the entire system. - The ASH application includes delete and archive functions that have not been enabled increasing the risk that the Authority will eventually be in breach of record retention guidelines and data protection legislation. - There is currently no provision for the Debtors system within the Disaster Recovery site. In the event the Quadrant East data centre was lost there would be no access to the Debtors system.	Revenues management have self-certified one medium priority and five low priority recommendations as complete. Target dates for the remaining recommendations have not been reached.

	Audit Title	Audit Objectives	Assurance Opinion	Recommendations			
				Critical	**High**	**Medium**	**Low**
5	Liquidlogic and ContrOCC System Review	To determine whether controls and procedures in operation for the Liquidlogic and ContrOCC systems are functioning satisfactorily and are in accordance with legislation and Council policy.	**Limited**	0	0	13	18

Good Practice Highlighted	Main Issues Identified	Progress Made / Action Taken
- All system changes within Liquidlogic and ContrOCC are recorded within their respective audit logs. Audit logs are user friendly both on screen and in hard copy. - Several rounds of in depth user acceptance testing (UAT) were completed for Liquidlogic. - The Information Systems team undertook in depth testing of all new functionality in the test system before implementing in the live environment. - Liquidlogic password controls replicate the corporate password policy applied to Active Directory (AD) accounts which was recently strengthened. - Several rounds of training were carried out by internal and external trainers, training length and content varied based on users' roles.	- A number of Liquidlogic and ContrOCC user profiles provide users with access to the system that exceeds the business need. - Uplifts to service provider charges in ContrOCC are not subject to system approval. Opportunities to identify data input errors leading to over/underpayments in a timely manner are limited. - ContrOCC has the ability to enforce password complexity but this has not been enabled and users could set a single character password. - Members of the ENGIE finance team currently have end to end privileges allowing them to create payees in the Business Management System (BMS), finalise the payment run and then pay the payees from BMS. This lack of separation of duties issue is exacerbated by ENGIE Finance creating suppliers in ContrOCC. - Retention periods set within Liquidlogic Adults Social Care (LAS) are based on Liquidlogic defaults that are not in line with the Authority's agreed record retention periods. - The Authority's disaster recovery (DR) site does not provide any resilience for Liquidlogic or ContrOCC should the primary internet link fail.	Management have self-certified four medium priority and four low priority recommendations as complete. Target dates for the remaining recommendations have not been reached.

6   Evidence Checking

6.1   Internal Audit reports issued during the period November 2018 to April 2019 included seventeen medium priority recommendations. In respect of these seventeen recommendations, five have been self-certified by management as fully implemented. The remaining twelve medium priority recommendations have not reached their target dates. All medium priority recommendations in the audits in scope 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 April 2019.

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	5	4	80%	1	20%
Total	5	5	100%	0	0%

6.3   Further work on how best to measure the implementation of agreed recommendations has been included as a target within Internal Audit's Service Plan for 2019/20 and will be reported to Audit Committee in due course.

North Tyneside Council
Report to Audit Committee
Date: 29 May 2019

Report from Service Area: Resources

Report Author: **Allison Mitchell, Chief Internal Auditor**   **(Tel: 643 5720)**

Wards affected: **All**

PART 1

1.1   Purpose:

The purpose of this report is to provide the annual opinion from the Chief Internal Auditor on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, in accordance with the Public Sector Internal Audit Standards.

1.2   Recommendation:

It is recommended that the Audit Committee considers and notes the Chief Internal Auditor's 2018/19 'satisfactory' opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as **Appendix A**.

1.3   Council Plan and policy framework

The work of Internal Audit and the Audit Committee covers all service responsibilities as identified within the Council Plan.

1.4   Information

Internal Audit Annual Opinion 2018/19

1.4.1   The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS) to provide an annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The 2018/19 opinion from the Chief Internal Auditor is attached as **Appendix A**. This report documents Internal Audit's resourcing in the year, the work undertaken by Internal Audit during this period, highlights the main findings from this work, and gives the overall opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the framework of governance, risk management and control for the organisation.

1.4.2   The opinion is a source of assurance to the organisation when preparing the Annual Governance Statement, which will be presented to Audit Committee in its own right.

1.5   Decision Options:

It is recommended that the Audit Committee:

(a) notes the 2018/19 opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, attached as **Appendix A**; and

(b) considers this opinion as part of its approval of the Annual Governance Statement 2018/19.

There are no other options available in relation to this report.

1.6   Reasons for recommended option:

This recommendation will allow the Council to operate in line with legislation, good practice and professional guidance.

1.7   Appendices:

Appendix A: 2018/19 Opinion on the Framework of Governance, Risk Management and Control

1.8   Contact officers:

Kevin McDonald (Group Assurance Manager) Tel 643 5738

1.9   Background information:

The following background papers and research reports have been used in the compilation of this report and are available for inspection at the offices of the author.

(a) Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2017 (P) Public Sector Internal Audit Standards

(b) Local Government Application Note for the UK Public Sector Internal Audit Standards, Chartered Institute of Public Finance & Accountancy / Institute of Internal Auditors, April 2013 (P)

(c) Financial Regulations C.24 – C.35, Version 5a, September 2013 (P) http://november.northtyneside.gov.uk:7777/pls/portal30/NTC_PSCM.PSCM_Web.download?p_ID=515604

(e) Strategic Audit Plan 2018/19, March 2018 (P) https://my.northtyneside.gov.uk/sites/default/files/meeting/agenda/Audit%20Committee%2028%20March%202018.pdf

(f) Internal Audit Reports & Briefing Notes prepared during 2018/19 (C)

(g) The Accounts and Audit Regulations 2015, April 2015 (P) http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1   Finance and other resources

Effective internal audit is an essential part of the Authority's governance arrangements. Internal Audit examines the Authority's systems of internal control, and the economy, efficiency and effectiveness with which resources are deployed. The audit of the Authority's activities promotes good financial governance and the importance of value for money. Effective control in these areas reduces the potential for financial loss through fraud, waste and inefficiency.

There are no financial implications arising from the recommendations set out in this report.

2.2   Legal

The Accounts and Audit Regulations 2015 require the Authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Public Sector Internal Audit Standards require that the Chief Internal Auditor delivers an annual Internal Audit Opinion, which concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This report complies with all necessary requirements of the Public Sector Internal Audit Standards.

2.3   Consultation/community engagement

The 2018/19 opinion on the adequacy and effectiveness of the framework of governance, risk management and control summarises Internal Audit findings communicated to and discussed with service management throughout the course of 2018/19. Regular reports have also been made to the Audit Committee throughout the year, advising of the outcomes of Internal Audit's work, in accordance with the Audit Committee's planned schedule of work.

2.4   Human rights

There are no human rights issues arising from this report.

2.5   Equalities and diversity

There are no equality and diversity issues arising from this report.

2.6   Risk management

Internal Audit activity is based on a risk-based approach, thus ensuring that coverage is focussed on areas of Council activity where Internal Audit resource will deliver most benefit and assist most effectively in the management of risk.

There are no specific risks arising from this report.

2.7   Crime and disorder

There are no specific crime and disorder issues arising from this report. The work of Internal Audit is a key strand in the Authority's counter-fraud arrangements, as set out in the Strategic Audit Plan.

2.8   Environment and sustainability

There are no environment and sustainability issues arising from this report.

Report authors   Allison Mitchell / Kevin McDonald

Internal Audit Service

2018/19 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

May 2019

Contents

Executive Summary

Overall, Internal Audit work performed in the financial year 2018/19 found that internal control systems in the areas audited were effective.

The majority of audited areas were awarded an audit opinion of 'significant assurance'. No 'critical priority' or 'high priority' recommendations were made by Internal Audit during the year, and no 'no assurance' audit opinions have been issued or are pending. This demonstrates that overall, a sound approach to governance and control is in place throughout the organisation in the areas audited.

As reported to Audit Committee, a number of areas of good practice were identified throughout the year. In other areas, improvement plans already in place by management, together with Internal Audit's recommendations, will continue to strengthen the organisation's framework of internal control.

The opinion of the Chief Internal Auditor is therefore that, at the time of preparing this report, the organisation's internal control systems in the areas audited are **satisfactory.** This is a positive assessment of the Authority's control environment and reflects favourably on the organisation's governance arrangements.

As the risk environment within which local government operates continues to change, we will incorporate emerging risk areas within our future audit coverage. This will help to ensure that the annual opinion considers all material issues likely to affect the Chief Internal Auditor's judgement on governance, risk management and control.

1   Purpose of Report

1.1   This report has been written by 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.

2   Governance, Risk Management and Control

2.1   Management's responsibility for the effectiveness of the internal control system is clearly set out in the Authority's Financial Regulations. The Regulations state[1]:

- It is the responsibility of the Chief Finance Officer to assist the Authority to put in place an appropriate control environment and effective internal controls which provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

- It is the responsibility of Chief Officers to:

  o Manage processes to check that established controls are being adhered to and to evaluate their effectiveness, in order to be confident in the proper use of resources, achievement of objectives and management of risks.

  o Review existing controls in the light of changes affecting the Authority and to establish and implement new ones in line with guidance from the Chief Finance Officer and Internal Audit. Chief Officers should also be responsible for removing controls that are unnecessary or not cost or risk effective – for example, because of duplication.

  o Ensure staff have a clear understanding of the consequences of lack of control.

2.2   Appropriate controls will depend, amongst other factors, on:

- The nature, size and volume of transactions;
- The degree of control which management is able to exercise personally;
- The geographical distribution of the enterprise; and
- The cost of operation of the controls against the benefits expected from them.

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[1] Financial Regulations, Version 5a (September 2013), Regulations C.20-C.23

2.3   There are eight main types of internal control, namely:

Preventative Controls
(i)   Segregation of duties (no one person should be responsible for processing and recording a complete transaction)
(ii)   Authorisation and approval (all financial transactions should require authorisation by an appropriate responsible official; the limits of authorisation should be specified)
(iii)   Physical (custody of / access to tangible assets should be secure and limited to authorised personnel)

Detective Controls
(iv)   Arithmetic & Accounting (controls within the recording function to check that transactions have been authorised, are included, are correctly recorded and are accurately processed)

Directive Controls
(v)   Organisation (responsibilities should be defined and allocated; reporting lines should be identified; delegation of authority should be clearly specified)
(vi)   Supervision (all actions by all levels of staff should be supervised; the responsibility for this supervision should be clearly laid down and communicated to the person being supervised)
(vii)   Personnel (procedures should exist to ensure that staff are competent to carry out the jobs assigned to them, including proper recruitment and performance management procedures, career prospects, training and pay policies)
(viii)   Management (controls exercised by management outside the day to day routine of the system, including supervision).

2.4   When auditing, Internal Audit assist management by testing to see whether the controls established for any given system are appropriate. It is important to stress that Internal Audit, while part of the Authority's overall assurance framework, is not a substitute for effective internal control within the Authority's systems.

3 Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control

3.1   The Chief Internal Auditor is required under the Public Sector Internal Audit Standards (PSIAS), introduced in 2013 and revised April 2017, to provide an annual opinion, based on an objective assessment of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. For the purpose of meeting this requirement, the Chief Internal Auditor provides one of two opinions:

(a)   That the organisation's framework of governance, risk management and control is **satisfactory** (i.e. that satisfactory assurance can be obtained from governance systems and procedures in place); or

(b)   That the organisation's framework of governance, risk management and control is **not satisfactory** (i.e. that there is insufficient control in evidence within the organisation's governance systems to provide satisfactory assurance).

3.2   The opinion of the Chief Internal Auditor is that, at the time of preparing this report, the organisation's internal systems of governance, risk management and control were **satisfactory** overall during 2018/19. The Chief Internal Auditor has not needed to place reliance on the work of other bodies in forming her view, and there are no limitations in the scope of this opinion. There are no qualifications to this opinion.

3.3   This judgement is informed by the outcomes of Internal Audit work during 2018/19, which are reported to the Audit Committee in regular updates of key outcomes. These have demonstrated that the majority of audit opinions for work undertaken in this period have been 'full assurance' or 'significant assurance', with a small number of 'limited assurance', and no 'no assurance' opinions. A full list of audits performed and opinions issued is included at **Annex A**.

3.4   A number of areas of good practice were identified throughout Internal Audit's work during the year. In addition, evidence checking and follow up performed by Internal Audit has demonstrated effective management action in implementing Internal Audit's recommendations.

3.5   It is recommended that Internal Audit's satisfactory opinion on the framework of governance, risk management and control is considered as a source of assurance for the preparation of the Annual Governance Statement for 2018/19, and its subsequent approval by the Audit Committee.

3.6   This is a positive opinion, which means that the organisation has suitable internal control systems. This opinion is based solely on the areas reviewed, and the progress made by the organisation to action Internal Audit recommendations.

3.7   This opinion on the framework of governance, risk management and control has been prepared in accordance with the Public Sector Internal Audit Standards and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance and Accountancy as the 'relevant Internal Audit standard setter'.

3.8   Assurance can never be absolute, and neither can Internal Audit work be designed to identify all weaknesses that might exist. In accordance with its role, Internal Audit has agreed recommendations with management aimed at further strengthening the control environment in operation within the organisation.

4   Audit Resourcing During 2018/19

4.1   The Regulations governing the operation of Internal Audit are the Public Sector Internal Audit Standards (PSIAS) 2017. In terms of resourcing, the PSIAS state that Internal Audit must be "appropriately positioned and adequately resourced". The PSIAS goes on to state that the Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Where the Chief Internal Auditor believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board (in North Tyneside, the Audit Committee).

4.2   In 2018/19, Internal Audit's resourcing has been lower than planned, due to a number of factors. Against planned productive days of 975, 752 (77%) was achieved. This involved:
*   Deployment of an internal audit resource on a one-off item of non-audit work (82 days).
*   145 days used elsewhere in the shared service, coupled with difficulties in recruiting to new posts established within the shared service. This will be addressed by 2019/20 coverage within our organisation.
*   Staff productivity exceeded that forecast.

5   Internal Audit Work Performed During 2018/19

5.1   Internal Audit has provided an audit, advice, and programme assurance service to the Authority in 2018/19. The work of Internal Audit is governed by the PSIAS and the accompanying Local Government Application Note issued by the Chartered Institute of Public Finance & Accountancy as the 'relevant Internal Audit standard setter'.

5.2   The audit reports and briefing notes issued during 2018/19, and those related to this period which are currently being finalised with our audit clients, are set out at **Annex A**.

5.3   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	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 of, or occasional non-compliance with, key controls put the achievement of the organisation's 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 (or have resulted) in failure to achieve the organisation's objectives in the areas reviewed.

5.4   The opinions given to audits issued during 2018/19 are also shown in **Annex A**.

5.5   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 below:

Priority	Description
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.

5.6   The number of Internal Audit recommendations agreed with management during the 2018/19 audit year, classified against each priority, is provided in the table below (data from the previous five years is also shown for comparison):

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Critical Priority	Nil	Nil	Nil	Nil	Nil	Nil
High Priority	7 (3%)	7 (3%)	Nil	3 (2%)	2 (1%)	Nil
Medium Priority	71 (27%)	101 (37%)	131 (41%)	56 (36%)	51 (38%)	37 (28%)
Low Priority	184 (70%)	163 (60%)	187 (59%)	98 (62%)	82 (61%)	94 (72%)
TOTAL	262 (100%)	271 (100%)	318 (100%)	157 (100%)	135 (100%)	131 (100%)

Note: Percentages contain roundings

5.7   There is a trend reflected within the table above of a reducing number of recommendations. Resourcing continues to be closely monitored and additional resources have been sought via the shared service arrangements in place with our partner Authority (Northumberland County Council).

5.8   Prioritisation of Internal Audit recommendations is controlled through Internal Audit's quality control and file review processes. This is in accordance with the requirements of Public Sector Internal Audit Standards, which requires that a Quality Assurance and Improvement Programme is in place for Internal Audit's work.

Audit Highlights 2018/19

5.9   This section of the report is designed to draw attention to significant audits and findings from Internal Audit in the 2018/19 year. It should be read in context of the overall positive 'satisfactory' audit opinion described above.

5.10   It is of comfort to the Authority that the fundamental financial systems, and high value / high volume transactional systems achieved 'significant assurance' or 'full assurance'. These systems comprise the main processes by which the organisation makes payments or receives income.

5.11   Attention is also drawn to the 'significant assurance' opinion reached in respect of Business Continuity Management. Appropriate arrangements were found to be in place for business continuity management across the Authority and its major strategic partners, to maintain continuity of service delivery in the event that a business disruption was to occur. Given the importance of continued service delivery to our residents and customers, a 'significant assurance' opinion in respect of this aspect of the Authority's arrangements is to be welcomed.

5.12   In terms of the areas where a 'limited assurance' opinion was determined, Internal Audit would draw attention to the audits of Telephony, Payment Card Industry Data Security Standards (PCIDSS), Liquidlogic and ContrOCC system and Debtors ICT System. This highlights key areas of risk which should be a focus of management attention, especially given the importance of computerised systems for the effective delivery of so many of the

Authority's services. Whilst currently being finalised with clients, the audit of Network Management found arrangements to be more soundly based, resulting in an indicative 'significant assurance' opinion for that audit.

5.13   In addition to performing internal audits of existing systems within the Authority and responding to queries on the operation of such systems, during 2017/18 Internal Audit has had a significant and increasing role in advising on new systems within the Authority. A full list of the programme assurance and project boards supported by Internal Audit is shown at **Annex A**. 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. It is expected that this type of audit work will continue in future years. Key highlights from Internal Audit's programme assurance work during 2018/19 include:

a)   **Information Security Working Group (ISWG)**
Internal Audit attendance at the ISWG (formerly Computer Security Working Group) has been constant since its inception in circa 2002. The purpose of the ISWG is to promote the effective management of Authority information in all formats throughout its lifecycle and to meet operational, legal, security and evidential requirements. The ISWG supports the Authority in identifying and managing its information needs, risks and responsibilities by reviewing policies and procedures that comprise the Information Governance Assurance Framework (IGAF) recommending action where appropriate to strengthen information security controls. The ISWG meets on a monthly basis and, in addition to authorising any changes to relevant policies, reviews any information security breaches or near misses and considers whether these were due to end user error or, if caused by weaknesses in working practice or use of technology, determine what measures should be implemented to mitigate the risk of future incidents.

b)   **Social Care IT Transformation (SCITT) Board**

The SCITT Board was formed in November 2016. Its remit included (but was not limited to) implementation of the Liquidlogic Adults and Children's social care case management systems and the ContrOCC contract management, budgeting and payments system. Its scope also included the provision of facilities for mobile working to enable staff to operate away from an office environment, including in clients' homes, and web-based services to support self-service by the public, clients, and staff.

Internal Audit's role on the SCITT Board was to provide an independent assurance role and as such provide an audit comment on any issues presented at Board meetings. A key focus of Internal Audit's role on the Board has been assurance around data transfer – the most significant risk in the project.

A specific issue brought to the Board's attention by Internal Audit was resilience for hardware hosted in the Quadrant data centre, which is required to authenticate users to the externally hosted Liquidlogic applications. A risk was identified that the hardware, though hosted internally, was not managed by ICT; with the possibility that any failure might result in a loss of access to Liquidlogic by the user base. Disaster recovery arrangements within the Authority have however been the subject of significant Senior Leadership Team oversight, with dedicated plans in place should a disaster occur.

Additional resilience for the hardware has been increased within the Quadrant data centre, and Internal Audit have recommended that this increased control is further replicated to ICT's disaster recovery site.

c)   Office 365 & SharePoint (collaborative tooling solution)

Internal Audit's role on the Collaboration and Information Board was to provide an independent assurance role and as such provide an audit comment on any issues presented at Board meetings. Internal Audit have highlighted management and resourcing as key risks in a project of this nature. Internal Audit has supported the eventual migration of data from the Authority's current data storage platforms to SharePoint by leading on an exercise to cleanse the relevant computer drives of redundant, obsolete and trivial data.

d)   Construction Group Project - Internal Audit's contribution to this working group included providing a view on whether the corporate mobile device management solution, identified as part of the 365 project, would be adequate for Construction Group requirements.

5.14   There are a number of funding organisations that require an Internal Audit review prior to final grant claim submission. This area of our activity is also shown at **Annex A** and involved the certification of £6.263m grant funding in 2018/19.

5.15   Wherever possible, Internal Audit has sought to leverage shared learning through our shared service partnership with Northumberland County Council.

6   Schools' Financial Value Standard

6.1   Time was included in the audit plan for 2018/19 to support and co-ordinate the work required by the Schools Financial Value Standard (SFVS) on behalf of the Authority.

6.2   The SFVS has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. Governing bodies have formal responsibility for the financial management of their schools, and so the standard is primarily aimed at governors; however the Authority's Chief Finance Officer is responsible for ensuring that submissions made by schools are in line with the judgements on these schools which have already been reached by Internal Audit.

6.3   On behalf of the Chief Finance Officer (Section 151 Officer), Internal Audit co-ordinated, received and reviewed Schools' Financial Value Standard submissions, for all of the Authority's grant-maintained schools. All schools submitted their self-assessments by the deadline of 31 March 2019.

7   Special Investigations, Counter Fraud and the National Fraud Initiative (NFI)

7.1   In common with previous years, Internal Audit has performed 27 special investigations and management requests during 2018/19. These relate to issues which could not be foreseen in advance, and where irregularity may

have been indicated. As such, it is important that the organisation can call upon Internal Audit resource to respond quickly to assess the control and governance issues indicated and to secure evidence if required. Internal Audit's work in this area has included:

- potential cash discrepancies;
- appropriateness of ICT access;
- interrogation of ICT systems and email records; and
- examination of a major capital project (budget and project management arrangements)

7.2   Where irregularities were confirmed, swift action was taken by management (supported by Internal Audit) to cease the possibility of ongoing impropriety. Causes were then investigated and this, as is typically the case in this area of work, tended to highlight the need for enhanced directive control (see paragraph 2.3), in particular management and supervisory controls.

7.3   During 2015/16, dedicated counter fraud resource was appointed within the Internal Audit team. A thorough review of the Authority's operations has been undertaken, from a counter fraud perspective, and developed a 'counter fraud blueprint' highlighting the areas of North Tyneside's operations where the risks of fraud are likely to be most prevalent. These risk areas were ranked, and work prioritised to help ensure that resource focussed on areas of greatest risk to the Authority. Counter Fraud work undertaken during 2018/19 has resulted in the realisation of £0.342m in directly cashable savings and £0.401m in indirectly cashable savings.

7.4   North Tyneside Council is part of the Cabinet Office's National Fraud Initiative and is thus legally obliged to provide relevant information under the requirements of the Audit Commission Act 1998. Before this information can be provided, the Authority is required to ensure that appropriate steps have been taken to notify data subjects held in the organisation's relevant information systems that data may be used for the prevention and detection of fraud.

7.5   As in previous years, Internal Audit have acted as the lead within the Authority for the NFI data-matching exercise. Data was extracted from the relevant Authority systems and submitted to the Cabinet Office in preparation for the 2018/19 exercise. Details of data matches have now been released and Internal Audit is currently investigating the matches, in conjunction with officers within relevant departments, and updating the NFI system with outcomes.

8   Ad-hoc Queries / Requests for Advice

8.1   Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not usually appropriate to issue a formal report.

9   Clients' Views

9.1   For several years, Internal Audit has sought client feedback in respect of all audit reports issued, at the conclusion of each audit assignment.

9.2   The feedback received from respondents for 2018/19 remains very positive. Clients score the service from 1 to 4 against a number of criteria, with 1 being very satisfied and 4 being very dissatisfied. From all the returned feedback forms, clients' overall opinion was that audits are constructive and provide value to management. The overall average score in 2018/19 was 1.0 (the highest that can be achieved).

9.3   Internal Audit seeks to continually improve and will be reviewing and implementing new processes through its quality assessment and improvement programme. The theme of comments added to the feedback is that audits are conducted in a professional manner and findings and recommendations will lead to system improvements.

9.4   The full results for 2018/19, along with comparative data from 2017/18, are shown at **Annex B**.

10   Annual Governance Statement 2018/19

10.1   The Annual Report from the Chief Internal Auditor is one source of intelligence for the organisation when preparing the Annual Governance Statement (AGS). Internal Audit has continued to target its assurance activity at areas of risk in its 2018/19 coverage in line with the agreed audit plan. Regular reports have been presented to Audit Committee during the year to allow the Audit Committee to develop awareness of the application of the Authority's governance structure.

10.2   It is suggested that the following issues are considered for inclusion in the Annual Governance Statement:

Overall Opinion on the organisation's internal systems of governance, risk management and control:

The overall opinion of the Chief Internal Auditor on the organisation's internal systems of governance, risk management and control, was found to be satisfactory (ref. point 3.2).

In determining the overall 'satisfactory' opinion, the Chief Internal Auditor has had regard to the established framework of core financial systems in place within the Authority, which when audited during 2018/19 were found to bear appropriate internal controls and to be operating satisfactorily.

IA/AHM
May 2019

Annex A:
Formal Audit Reports issued during 2018/19

Audit:	Opinion:
Business Continuity Management	Significant
Cash and Non-Credit Income	Significant
Council Tax (2018/19)	Significant
Council Tax (2017/18)	Significant
Creditors	Significant
Debtors System Review	Limited
Liquidlogic and ContrOCC System Review	Limited
Payroll	Significant
Payment Card Industry Data Security Standards (PCIDSS)	Limited
Telephony	Limited
Rent Assessment & Collection (2018/19)	Full
Rent Assessment & Collection (2017/18)	Full
Schools' Website Compliance with Department for Education	N/A
Tyne Port Health Authority Annual Return	N/A

Reports Pending from 2018/19 (draft report issued, awaiting issue as final report)

Audit:	Indicative Opinion:
Network Management	Significant

Grant Claim Certification

A191 Corridor Local Growth Fund (£1.395m)
Carbon Reduction Commitment Energy Efficiency Scheme (£0.249m)
Cobalt Cycle Scheme Local Growth Fund (£0.084m)
Disabled Facilities Grant (£0.129m)
Growth Hub Funding for NECA / LEP (£0.416m)
Local Transport Plan (£3.66m)
School-Centred Initial Teacher Training (SCITT) Grant (£0.022m)
Troubled Families (£0.308m)

Project Boards / Working Groups

Internal Audit has also supported the following Project Boards / Working Groups during 2018/19 in a programme assurance role:

Construction Group Insourcing
Information Security Working Group
Office 365 & SharePoint (collaborative tooling solution)
Public Services Network
Social Care IT Transformation (SCITT) Board

Ad-hoc Queries / Requests for Advice

Internal Audit receives requests for ad-hoc advice and support throughout the year, in respect of which we may be required to extract prime data or produce analysis but where it is not always appropriate to issue a formal report.

Annex B: Overall Results from Client Feedback Forms 2018/19

Satisfaction score between 1 and 4 with 1 being very satisfied and 4 being very dissatisfied (scores from 2017/18 are shown in brackets):

	Average Score
AUDIT PLANNING/COVERAGE	
• With the advance notification for the audit	1.0 (1.0)
• With the areas covered by the audit	1.0 (1.0)
• That your requirements were reflected by the audit	1.0 (1.25)
AUDIT APPROACH	
• That the objectives of the audit were clearly explained and understandable to you	1.0 (1.25)
• With the knowledge and professionalism of the auditors	1.0 (1.0)
• With the attitude and politeness of the auditors	1.0 (1.0)
• With the auditors understanding of your operational requirements	1.0 (1.25)
• That there was adequate consultation on findings and recommendations	1.0 (1.25)
REPORTING ARRANGEMENTS	
• With the accuracy of the findings	1.0 (1.25)
• With the materiality of the findings	1.0 (1.25)
• That the report was clear and concise	1.0 (1.25)
• With the usefulness of the conclusions and recommendations	1.0 (1.25)
• With the arrangements for commenting on the draft report	1.0 (1.25)
• The time taken to produce the report following the audit visit	1.0 (1.5)
OVERALL OPINON	
• That the audit was constructive and provided value to management	**1.0 (1.25)**