Internal Audit
Progress Report

Newark and Sherwood District Council – November 2022

Contents

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Introduction & Key Messages

The purpose of this report is to:

• Provide details of the audit work during the period July 2022 to October 2022
• Advise on progress of the 2022/23 plan
• Raise any other matters that may be relevant to the Audit Committee role

Key messages

Since our last progress report presented to the Audit and Governance Committee in July 2022, we have completed four assurance audits and three other types of audit as detailed below. Our current level of delivery against the revised 2022/23 audit plan is 59%.

Work completed - Assurance and other audits

The following audit work has been completed and a final report issued:
• Palace Theatre and National Civil War Centre – High assurance
• Key Control Testing – Substantial assurance
• Virus Protection / Malware – Substantial assurance
• Information Governance and Personal Data Breaches – Substantial assurance
• London Road Municipal Buildings – consultancy
• Flood grants – grant certification
• Gilstrap Accounts – accounts examination

Work in Progress

We currently have the following seven audits in progress:-
• Project Strategy – draft report
• Social Housing Charter – consultancy
• Customer Services – Fieldwork
• Planning Applications – Fieldwork
• Combined Assurance – Fieldwork
• Levelling-up and Newark Town Funds – Terms of Reference agreed
• Responsive Repairs – draft Terms of Reference issued

We currently have further details of these within the body of the report and in Appendix 5.

1	HIGH ASSURANCE
3	SUBSTANTIAL ASSURANCE
0	LIMITED ASSURANCE
0	LOW ASSURANCE
1	CONSULTANCY
2	GRANT AND ACCOUNTS EXAMINATION

Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in **Appendix 1.**

Changes to the 2022/23 audit plan

Whilst we present a plan at the start of the year, we review it periodically throughout the year to reflect changes in risk profiles and capacity to deliver. This helps to ensure that the plan covers those areas which are a priority to the Council and there is adequate coverage to inform the Head of Internal Audit's opinion.

Since the last report to the Committee in July 2022, management have requested the following amendments to the plan, and we present them to this Audit and Governance Committee for review and approval – further details are provided in Appendix 2.

Audit area	Changes
Treasury Management	Deferred until 2023/24
iTrent HR / Payroll System	Deferred until 2023/24
Workforce planning*	Deferred until 2023/24
Governance Review (Health Check)*	Deferred until 2024/25
Palace Theatre and Newark Civil War Centre	Added to plan
Strategic Asset Management	Added to plan
Housing Repairs' Customer Service Review	Added to plan

* Changes made to these 'must do' audits may affect the Head of Internal Audit's annual opinion. In order to support the Head of Internal Audit's opinion, we will consider other sources of assurance e.g. combined assurance and mitigating control actions to inform the opinion.

Implementation of agreed actions

There are eleven actions which are due for implementation across the Council's directorate areas most of them (54%) relating to the Housing, Health and Wellbeing (HHW) directorate. Four of the HHW actions (two high and two Medium) are for the Compliance Services (Landlord) audit and two for the Policies and Procedures audit. We have provided more details on pages 11 and 12 of this report). Director extensions have been given for all six HHW actions.

In October 2022, Regulator of Social Housing issued a Regulatory Notice to the Council for a potential breach of part 1.2 of the Home Standard and some of the due actions in the Compliance Services (Landlord) audit relate to this.

Other significant work

We jointly worked with the Council's Monitoring Officer to deliver governance training in November 2022 to support members of the Audit and Governance Committee.

High Assurance

Palace Theatre and National Civil War Centre

Overall, the Heritage & Culture business unit's arrangements for apportioning costs between the Palace Theatre, NCWC, Castle and Resource Centre have been found to be realistic, fair, financially viable and based upon a sound rationale. It is pleasing to note that no findings or advisory notes have been raised within this report.

The rationale for some example budget lines were explained and demonstrated, with a spreadsheet used to capture the apportionment percentages that had been applied to each venue. The apportionments are based on the operational knowledge and expertise of the Business Manager, who has been in the current post since 2019.

Part-way through the project, some potential operational inefficiencies were identified by the Business Manager in respect of how the costs could be apportioned during invoice processing, and in relation to how the apportionment could be easily reviewed, adjusted where necessary and monitored on an ongoing basis. In response to these concerns, internal audit facilitated a discussion between the Business Manager for Financial Services, the Business Manager for Heritage & Culture and the supporting Accountant, with a view to reaching an agreement which both served the rationale for apportioning the costs between the Heritage & Culture venues, and one which was operationally practical.

An agreement was reached during that meeting, whereby a temporary accounting mechanism would be used to apportion the costs. Actual costs would be appropriately journaled and verified at month-end by the Accountant and the Business Manager for Heritage & Culture, in accordance with agreed and finalised apportionments. This method enables the smooth processing of invoices, and an accurate set of monthly accounts to be maintained. It will also produce an audit trail which supports the apportionment of costs for each respective month. As well as verifying the month-end accounts as part of standard budget monitoring process, the Business Manager for Heritage & Culture will review the apportionments as part of the wider, annual budget setting cycle to ensure that they continue to agree with operational forward planning.

This will particularly occur where the theatre's calendar of events is concerned, as this will adapt and change regularly in response to its environment and the sometimes-unpredictable nature of its business.

We were informed by the supporting Accountant that the approach outlined above has been relayed to, and agreed by, the Deputy Chief Executive and Resources in line with the Council's financial regulations.

At the time of the last audit meeting on 30th June 2022, it was our understanding the cost apportionments had been finalised for the Palace Theatre and for all staff resources.

High Assurance

Palace Theatre and National Civil War Centre

…continued

The remainder, such as the apportionments for general operational and miscellaneous costs, and the theatre and NCWC's café, the NCWC, Castle and Resource Centre's other costs were going through final verification. Building costs were also due to be transferred to the Corporate Property team's budget, as had been previously agreed.

The temporary accounting codes for each venue were yet to be created. The next steps were for the Accountant to finish adding the budgets into the financial system, taking the apportionments into consideration. April 2022's budget and actual figures would then be used to complete a test run on the apportionment, which would be reviewed closely and agreed by the Business Manager for Heritage & Culture and the Accountant prior to being finalised. Any relevant adjustments to the apportionment proforma would be made following that verification, and the same practice would be applied to May and June's accounts.

It was envisaged that the cost apportionment would become business as usual from July 2022 onwards.

Substantial Assurance

Key Control Testing 2021/22

Overall, we found that the key controls, which have been put in place for the Creditors, Banking, Income and Treasury Management systems are operating effectively and have appropriate safeguards in place to ensure the integrity of the financial systems and the data. A 'Substantial' audit opinion has been given on the effectiveness of the key controls we reviewed, and the following conclusions support our opinion:-

- There is adequate segregation of duties in place for authorising, actioning payment runs, loans, investments, making bank payments, for receiving payments, managing debtor accounts and write offs which means there is a reduced risk of fraud.
- There is a mechanism in place to ensure invoices are processed in accordance with supplier payment terms, VAT regulations and set processes which support effective budget monitoring and ensures compliance with the Prompt Payment Code which minimises a financial and reputation risk to the Council.
- Regular standard exception reports are produced and reviewed, including potential duplicate payments which provides an opportunity for any errors or significant issues to be identified and rectified in a timely manner.
- There is an approved Treasury Management strategy which is complied with. Automatic transfers are properly authorised, reviewed and made to/ from the Council's bank account correctly which ensures reduced fraud risk.
- Bank account access is adequately restricted with additional controls in place by the bank to ensure the Council's funds are safeguarded from unauthorised access.
- Bank reconciliations are accurate and, in most instances, completed on a timely basis with independent review to ensure that any errors or significant issues are identified and promptly resolved.

Our review identified some areas where the processes can be strengthened further to ensure that:-

➢ Creditors reconciliations are regularly carried out in a timely manner and reviewed by an independent officer to ensure that irregularities or issues are identified and rectified in a timely manner.

➢ A clear framework is in place to ensure procurement cards are only used for valid purchases within defined limits. We acknowledge that an internal review on p-card usage and limits had been requested to support this improvement which help to enhance the controls around the use of the P-Card.

Substantial Assurance

Key Control Testing 2021/22

…Cont'd

➢ Evidence to support the processes for independent checks is retained to confirm that due diligence checks have been carried out when vendors have requested changes to their bank details. There is a risk that fraudulent bank changes are made resulting in a financial loss to the Council.

➢ Issuing of credit notes is sufficiently supported by appropriate instruction or authorisation. There is a risk that credit notes are incorrectly and/or fraudulently issued, resulting in financial loss to the Council.

Substantial Assurance

Virus Protection / Malware

We have concluded that substantial assurance can be given for the adequacy of security measures in place to protect key Council services against the threat of virus and malware infection.

Audit review identified several areas of good practice. For example, Windows Defender antivirus software has been deployed across the Personal Computer and Server estate. Any inactive (and unpatched) devices are automatically disabled from the Council network after a period of 90 days of inactivity.

Audit testing provided assurance that robust arrangements are in place which ensure that the systems are protected from unauthorised installation of software or running executable files with access to perform such tasks restricted to only authorised ICT technical support personnel.

To enhance user awareness of malware threats, we were informed that all Council users are required to undertake mandatory training covering information security and data protection. Any user that has or is suspected to have clicked on a phishing link is also required to retake the training.

In addition, the ICT & Digital Services have proactively initiated annual phishing security tests which highlight the risk of malicious attempts to disclose user logon credentials.

The Mail Marshall email scanning utility ensures that both incoming and outgoing email messages are scanned for virus infected attachments using McAfee antivirus software. Mail Marshall is also configured to block phishing emails by default.

A proxy server appliance has been deployed to monitor internet use and block user access to inappropriate or malicious websites. In addition, the proxy server automatically scans all files downloaded from the internet for virus infection.

A significant threat to any ICT infrastructure is ransomware infection of backup data. To protect against this risk, all backup media encompassing both business applications and data are encrypted. We confirmed that backup media was stored in three separate locations, including an offline copy and tape copies are securely stored in an offsite fireproof safe.

Our review of Active Directory security settings confirmed that macros (computer code inserted or embedded into other programs) were disabled by default in Microsoft Office documents.

Substantial Assurance

Virus Protection / Malware

We identified some areas where improvements could be made to strengthen the security environment including:-

➢ The need to review and update Information Security policy guidelines on malware threats and consideration to deploy antivirus software for Council smartphones and tablets to minimise system vulnerabilities

➢ Effective monitoring and reporting of users' completion of information security training to ensure continued user awareness and timely reporting of any identified security incidents.

➢ The need to review and minimise a number of Service Accounts with Active Directory superuser rights to ensure system changes are controlled and trackable.

Detailed findings, recommendations and agreed actions are provided in the Action Plan (presented in the full report) which once implemented will provide further protection against virus or malware infection.

Substantial Assurance

Information Governance and Personal Data Breaches

Our review of the processes in place for the management of information and personal data breaches has provided an overall Substantial assurance that the processes in place for the management of information and personal data breaches are operating effectively.

We found there is good framework for Information Governance which comprises six key components supporting effective management of the Council's data and compliance with the relevant regulations. The arrangement in place for the identification, administration and remediation of personal data breaches were operating effectively to minmise harm to the relevant data subjects.

A member of the Senior Leadership Team (Deputy Chief Executive and Director of Resources) is the Council's designated Senior Information Risk Officer (SIRO). The officer chairs the Corporate Information Governance Group (CIGG) where oversight of all information governance and personal data breaches are reviewed. The CIGG provides leadership and direction for the delivery of the Council's information governance Framework and membership of the group includes the Council's Data Protection Officer (DPO), Business Manager ICT & Digital Services and Business Managers across the Council who are the Information Asset Owners.

There is a dedicated Data Protection Officer (DPO) who is knowledgeable, experienced and raises awareness about the importance of Information Governance and data security across the Council. Their understanding of data protection is paramount to the success of this area. The Council continues to commit in investing resources into people, procedures and technology to safeguard its data and services.

The ICT business unit is forward thinking and proactive in building systems that protect the council and improve its operational capability. Using experience gained from undertaking 360 audits of other organisations, key lessons are learned which inform further developments within the Council ICT provision e.g. the introduction of biometric scanners and the use of the three random word password as suggested by the National Cyber Security Centre.

The Council plans to commence a project to implement Information Security Management System (ISMS) which will help the council to meet ongoing requirements of Data Protection Act by further strengthening the current framework in place. Successful implementation will allow the council to apply for the ISMS - ISO 27001 accreditation demonstrating an overall commitment to data across the council.

There are effective processes to identify, report, manage and resolve any personal data breaches within the Council which are supported by the existence of an up-to-date Data Security and Breach Management Procedure (DS&BMP). The DS&BMP sets out the roles, responsibilities and the process in place for reporting and investigating data breaches. The process has recently been strengthened with a focus on the investigation of any reported breaches and lessons learnt.

Overview of Assurances

Information Governance and Personal Data Breaches

Cont'd…

The DPO has delivered training to Business Managers to ensure all relevant information is captured and a thorough assessment made. This has raised awareness and encouraged staff to report breaches. A comprehensive record of breaches is maintained tracking the incident from initial identification through to resolution and lessons learned. This record is used as a tool for trend analysis to reduce the likelihood or impact of future incidents.
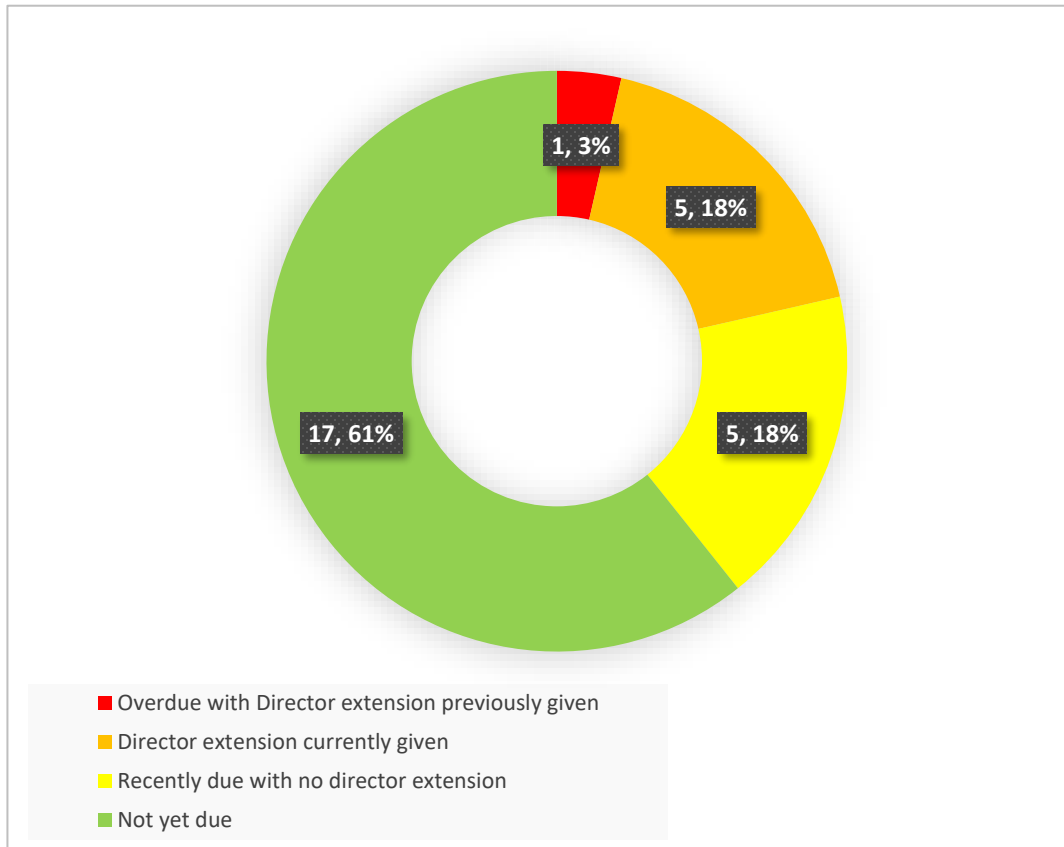
The Senior Leadership Team has quarterly oversight of Performance indicators which include a year-to-date figure for both reportable and non reportable personal data breaches.

Information governance is well managed, and work is currently underway to develop several the areas we have identified for improvement during the audit through the planned delivery of the ISMS project.
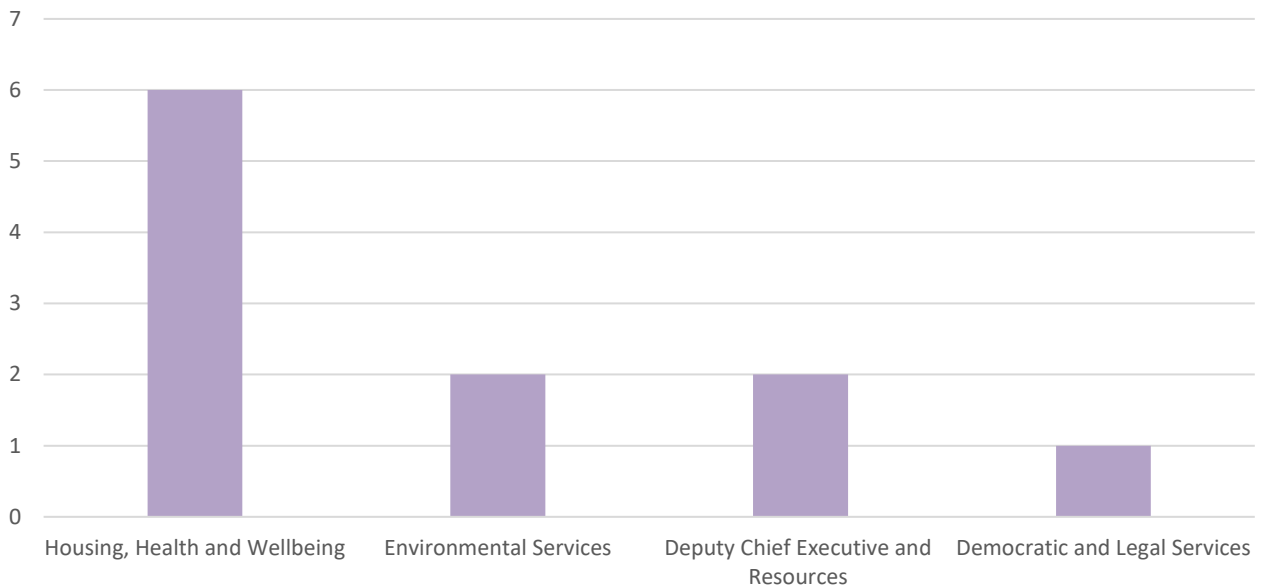
Our review identified some areas where the controls can be strengthened, and we have suggested improvements around:-

➢ Ensuring maintenance and monitoring of the staff members' training record to support the Council in identifying any training gaps and implementing a corrective action. In the event of a potential data breach investigation such record can be a useful tool to support the investigation.

➢ Ensuring key policies supporting the effective management of the Information Governance arrangement are relevant and provide up-to-date guidance to staff.

➢ Reviewing document retention and disposal arrangements to ensure ongoing compliance with the data protection legislation

➢ Ensuring the provision of regular staff updates to raise awareness about the importance of safeguarding the Council's data and prompt reporting of any security/data breaches to support timely corrective action. We would recommend a highlight report of key lessons learned within the Council and significant matters arising from other organisations.

Summary of current audit actions for implementation

All actions due by directorate area
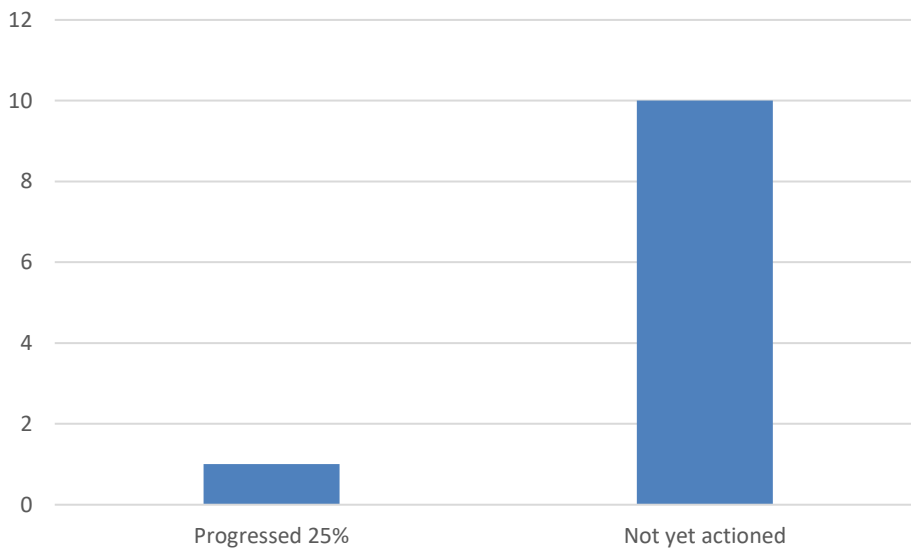
Bar chart "All actions due by directorate area":
- Housing, Health and Wellbeing: 6
- Environmental Services: 2
- Deputy Chief Executive and Resources: 2
- Democratic and Legal Services: 1

All actions due by implementation progress

Bar chart "All actions due by implementation progress":
- Progressed 25%: 1
- Not yet actioned: 10

CIPFA Position Statement on Audit Committees – published May 2022

CIPFA has updated their position statement for Audit Committees and replaces the 2018 edition and sets out the vital role an Audit Committee plays in a Councils governance arrangements. It sets out key principles around:-

- ➢ Independence and effective model
- ➢ Core functions
- ➢ Membership
- ➢ Engagement and outputs
- ➢ Impact

CIPFA will be issuing an updated 'Audit Committees – Practical Guide for Local Authorities and Police' – due to be published in September 2022.

CIPFA - Internal Audit Untapped Potential – published May 2022

CIPFA advocates best practice in assurance, governance, management and financial control across the public services. Internal audit has the potential to help organisations achieve their goals, but this potential may not be currently realised. This report, and the research that has been conducted to create it, explores the changing landscape of internal audit in the public services and how vital it is for an organisation in terms of its future success.

CIPFA intention with this report is to open a dialogue across public service organisations, the internal audit profession, audit committees, as well as those considering a career in internal audit. Internal audit is an important part of the solution for effective management of the public services, and CIPFA hope to facilitate change that will see greater independence of internal audit, sustainability of recruitment into the role and an increased understanding of assurance.

This report makes several recommendations. Some are directed at the internal audit teams working within and for the public services. Others are directed at the client organisations, both management and audit committees. There are areas of planned work that CIPFA will be taking forward, some in collaboration with the Chartered Institute of Internal Auditors (CIIA) and the Internal Audit Standards Advisory Board (IASAB).

We suggest that it would be good to explore the content of this report with the Audit Committee as part of its training and development plan – gaining greater insight into the Role and Impact of Internal Audit in the Council.

Benchmarking

Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

"Good" feedback

(50% response rate)

Plan completed 59%

Comparison of Audit Assurances

	2022/23	2021/22
High	14%	19%
Substantial	86%	67%
Limited		14%

Time span

	2021/22	2022/23
Span (Target 80%)	50%	55%
Draft Issue (Target 100%)	64%	55%
Final Issue (Target 100%)	83%	83%

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Assurance

High	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Ranking of Recommendations

High	Necessary due to statutory obligation, legal requirement, Council policy or significant risk of loss or damage to Council assets, information or reputation.
Medium	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
Low	Current procedure is not best practice and could lead to minor inefficiencies.

Amendments to Internal Audit Plan since the last progress report

Audit	Change	Rational
Treasury Management	Deferred	Management have assessed that this area does not currently present a great risk and to accommodate timely completion of priority audits before the end of Internal Audit Service contract, this review will be rolled over to 2023/24.
iTrent HR / Payroll System	Deferred	Management have provided assurance that robust processes have been put in place to ensure successful implementation of the new system. Key stakeholders have been significantly involved at all stages of the system implementation. Work is ongoing to implement some elements of the HR functions. Audit of Cloud Hosted during 2023/24 incorporating this system will ensure added value.
Workforce planning*	Deferred	A request has been made to defer this audit until 2023/24 due to resource issue to enable key staff to work on the implementation of the iTrent system.
Governance Review (Health Check)*	Deferred	The Council is currently undertaking a desktop review of its governance arrangement and have requested if the review can be deferred for a couple of years until 2024/25 when the new governance at the Council are more established. A detailed review based on the Centre for Governance and Scrutiny's 'Governance Risk and Resilience Framework' will present best value for the Council at that time.

Amendments to Internal Audit Plan since the last progress report

Audit	Change	Rational
Palace Theatre and Newark Civil War Centre	Added	Priority audit rolled from the previous year
Strategic Asset Management	Added	Priority audit rolled from the previous year
Housing Repairs Customer Service Review	Added	Priority audit added to support decision making and inform the Customer Service Strategy.

Note:

* Changes made to these 'must do' audits may affect the Head of Internal Audit's annual opinion. In order to support the Head of Internal Audit's opinion, we will consider other sources of assurance e.g. combined assurance and mitigating control actions to inform the opinion.

These key performance indicators are based on the 2022/23 revised audit plan.

Performance Indicator	Annual Target	2021/22 Actual	2022/23 (To date)
Percentage of plan completed (based on revised plan)	100%	95%	**59%**
Percentage of recommendations agreed	100%	100%	**100%**
Timescales: **Draft Report issued within 10 working days of completion***	100%	64%	**55%**
Final Report issued within 5 working days of management response*	100%	83%	**83%**
Draft Report issued within 3 months of fieldwork commencing*	80%	50%	**55%**

Corrective action has been taken as follows:-

- Early scheduling of the audits to ensure timely monitoring
- Continued client liaison meetings and additional dialogue with management where issues will be flagged up and way forward agreed to resolve.
- Discussions continue to be held at each Directorate Meetings to ensure prompt responses and engagement from their teams moving forward.
- Strengthening of the Assurance Lincolnshire Team's capacity and resilience

Palace Theatre and Newark Civil War Centre	High Assurance	Assurance	Completed	0	0	0	0
Strategic Asset Management	Not yet determined	Assurance	Fieldwork	0	0	0	0
Key Control Testing	Not yet determined	Assurance	Not started	0	0	0	0
Treasury Management	N/A	Assurance	Cancelled	0	0	0	0
Information Governance & Personal Data Breaches	Substantial assurance	Assurance	Completed	0	0	0	0
Governance Review (Health Check)	N/A	Assurance	Deferred	0	0	0	0
Growth Infrastructure Risk	Not yet determined	Assurance	Not started	0	0	0	0
Company Governance (Arkwood and Active4Today)	Not yet determined	Assurance	Not started	0	0	0	0
Planning Applications (Decision Making)	Not yet determined	Assurance	Fieldwork	0	0	0	0
Workforce Planning	N/A	Assurance	Deferred	0	0	0	0
Performance Management	Not yet determined	Assurance	Not started	0	0	0	0
Responsive Repairs	Not yet determined	Assurance	Planning	0	0	0	0
Resettlement Co-ordination	Not yet determined	Assurance	Not started	0	0	0	0
Levelling-up and Newark Towns Funds	Not yet determined	Assurance	Planning	0	0	0	0
Storage Area Network /Hosts Refresh	Not yet determined	Assurance	Not started	0	0	0	0

Audit	Rating	Type of audit	Status	High	Medium	Advisory	Total
ICT Applications	Not yet determined	Assurance	Fieldwork	0	0	0	0
iTrent HR / Payroll System (Selima replacement)	N/A	Assurance	Cancelled	0	0	0	0
Virus Protection / Malware	Substantial assurance	Assurance	Completed	0	0	0	0
Follow-ups	Not yet determined	Assurance	Not started	0	0	0	0
Contain Outbreak Management Fund (COMF)	Signed off	Grant certification	Completed	0	0	0	0
Mansfield Crematorium	Signed off	Accounts certification	Completed	0	0	0	0
Gilstrap	Signed off	Accounts certification	Completed	0	0	0	0
Housing Repairs Customer Service Review	N/A	Consultancy	Added	0	0	0	0
Combined Assurance	N/A	Other	Fieldwork	0	0	0	0