

June 2011

***Northampton Borough
Council***

Internal Audit Annual Report

Draft

Distribution List

Audit Committee

Management Board



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Background and scope

Background to this report

The Government Internal Audit Standards (“GIAS”) and the Code of Practice for Internal Audit in Local Government in the UK 2006 require the Head of Internal Audit to provide a written report to those charged with governance timed to inform the organisation’s Annual Governance Statement (AGS). The purpose of this report is to present our annual opinion of the adequacy and effectiveness of the Council’s system of internal control. This report is based upon the work agreed in the annual internal audit plan and conducted during the year.

Whilst our report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit was agreed with the Audit and Governance Committee (A&G) and presented in our annual internal audit plan. Our opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

This report covers the period from 1 April 2010 to 31 March 2011.

Acknowledgements

We would like to take this opportunity to thank all NBC staff for their assistance during the year.

Our annual opinion

Introduction

Under the terms of our engagement we are required to provide those charged with governance with an opinion on the overall **adequacy and effectiveness** of the Authority's:

- risk management;
- control; and
- governance processes.

Collectively we refer to all of these activities in this report as "**the system of internal control**".

Our opinion is based on the audit work performed as set out in our 2010/11 internal audit plan agreed by Audit Committee in March 2010. Our opinion is subject to the inherent limitations set out in the Limitations and Responsibilities section of this report.

Annual opinion on internal controls

It is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

We have completed the program of internal audit work for the year ended 31 March 2011 subject to management responses being finalised and agreed for the following draft reports:

- Debt Recovery (issued February 2011)
- Human Resources (issued April 2011)
- Carbon reduction commitment (issued March 2011)
- Budgetary Control (issued May 2011)

We are liaising with management to finalise these reports.

The next section shows the results from each audit, including those in draft. On the basis of audit work carried out, we have concluded that the established procedures are adequate to meet management's control objectives for the majority of systems reviewed in year. We have noted excellent progress in some areas, including:

- Bank Reconciliations- The Authority has successfully made significant changes to this process over the last two years and we can now conclude that bank reconciliations are well controlled.
- Fixed Assets, Housing Benefits and IT Backup and Recovery – We were able to provide high assurance opinions for all three of these areas.
- General Ledger and Cash Collection – We identified an overall improvement in control for both these audits.

In 2009/10 we provided a 'No assurance' opinion for three audits and this resulted in our limited assurance opinion on the system of internal control.

In 2010/11 however, no internal audit reports were issued with a no assurance opinion which indicates improving levels of control at the Authority. We have, however, provided 'Limited' assurance opinions for Expenses, IBS Creditors and Debt Recovery. The Authority has further work to do in these areas to address the control weaknesses identified. High risk issues related to these areas are specified within 'Summary of Key Findings' on page 7.

Therefore, on the basis of our conclusions we are able to give **moderate** assurance on the design, adequacy and effectiveness of the system of internal control at the Council. We are pleased to note and acknowledge this significant improvement on our prior year assessment and recognise the improved control framework that is now in place. We provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and the number of medium rated risks is significant in aggregate. The level of our assurance is therefore moderated by these risks.

We have also provided support to the Council through our reviews of contract management and museums and we provided advice to help improve controls and processes.

Internal audit work conducted

Current year's internal audit plan

Our internal audit work has been conducted in accordance with our letter of engagement, GIAS, the Code of Practice for Internal Audit in Local Government in the UK 2006 and the agreed Annual Internal Audit plan.

The results of individual audit assignments (and summary of key findings)

We set out below the results of our work in terms of the number and relative priority of findings. A number of reports are in draft stage and are awaiting management responses. These have been highlighted (*) for reference.

Audit	Date of Fieldwork	Assignment assurance level	Number of findings			
			Critical	High	Medium	Low
Assurance Reports						
Cash Collection	September 2010	MODERATE (IMPROVING)	0	0	2	6
General ledger	November 2010	MODERATE (IMPROVING)	0	0	3	6
Creditor Payments - Agresso	November 2010	MODERATE	0	0	1	5
Creditor Payments - IBS	October 2010	LIMITED	0	2	10	3
Payroll	January 2011	MODERATE	0	0	4	4
Budgetary Control	March 2011	MODERATE*	0	0	3	2
Bank Reconciliations	November 2010	HIGH	0	0	0	2
Housing Benefits	February 2011	HIGH	0	0	0	1
Fixed Assets	February 2011	HIGH	0	0	0	2
Housing Rents	December 2010	MODERATE	0	0	3	4
Expenses	September 2011	LIMITED	0	1	5	1
Licensing	August 2010	MODERATE	0	0	4	1
Debt Recovery	January 2011	LIMITED*	0	2	6	3

Carbon Reduction Commitment	January 2011	MODERATE*	0	0	1	2
Human Resources	January 2011	MODERATE*	0	0	2	3
Voluntary Grants	June 2010	MODERATE	0	0	2	3
Insurance	January 2011	MODERATE	0	0	3	2
Planning applications	November 2010	MODERATE	0	0	3	5
IT Backup and Recovery Controls	February 2011	HIGH	0	0	0	2
Risk Management and Business Continuity Arrangements	December 2010	MODERATE	0	0	5	3
Project Governance	February 2011	HIGH	0	0	0	3

Summary of key findings

We set out below a summary of the key findings (those rated as high risk in the audit report). In addition we have outlined the rating of these issues in prior year to indicate whether issues have been implemented since our last Annual Report:

Audit review

High risk issue

IBS creditors

There was no review or authorisation of new suppliers on the IBS system, increasing the risk of false suppliers being created

The following value for money issues were identified:

- 4 significant contracts between the Authority and their suppliers had expired.
- There was no preferred supplier listing in place.
- The Authority did not use any purchasing consortium.

Debt recovery

A high number of control issues around delays within the debt recovery process were identified, increasing the likelihood that debts won't be collected

Expenses

The Authorised Signatory List was out of date and poorly organised. Signatures authorising expenses claims could not be checked properly.

Results of follow-up work

We performed follow up work on the following areas:

- Temporary Accommodation
- Home Renovation and Disables Facilities Grant

- Council Tax
- National Non-Domestics Rates

We have also conducted follow-up work throughout the year as part of our assignment reviews. Progress on follow up of audit recommendations is being reported on a regular basis to Audit Committee. We are pleased to note the high number of recommendations that have been implemented in year.

Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only **reasonable** and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

The assessment of controls relating to Northampton Borough Council is as at 31 March 2011. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and of internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment

In accordance with the Good Practice Guidance supporting the Government Internal Audit Standards, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Accounts Audit and Risk Committee. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Limitations in our scope

The scope of our work has been limited to those areas identified in our individual Terms of Reference.

Access to this report and responsibility to third parties





This report has been prepared solely for Northampton Borough Council in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Appendix A Annual assurance levels and risk ratings

Annual assurance statements

Level of Assurance	Description
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and / or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control <u>and</u> there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
 Critical	Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation’s objectives in relation to: <ul style="list-style-type: none"> • the efficient and effective use of resources • the safeguarding of assets • the preparation of reliable financial and operational information • compliance with laws and regulations.
 High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.
 Medium	Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
 Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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